FINANCIAL TIMES

World Business Newspaper http://www.FT.com

WEDNESDAY DECEMBER 17 1997

WORLD NEWS

UK import ban would break EU law, says Bonn minister

German agriculture minister Jochen Borchert yesterday said Britain's plan to ban imports of certain animal parts would breach European Union law. His warning came after the UK government decided on Monday to ban "specified risk materials" of cattle, sheep and goats. Page 18

Clinton warns Iraq
US President Bill Clinton said Iraq had not lived up to its obligations to open sites to United Nations weapons inspectors. Any further obstruction would require consideration of measures besides existing sanctions. Page 4

Nato consensus on Bosnia
Nato foreign ministers reached consensus on keeping a reduced military presence in Bosnia next year after being told of the risk of renewed war if they pulled out. US praise for partners, Page 2

Bank chief named PM
Czech central bank governor Josef Tosovsky has been appointed prime minister of an interim administration. Page 2; Observer, Page 18

Williams cleared over Senna
Williams-Renault team chief Frank Williams and five others were cleared of the manslaughter of racing driver Ayrton Senna, who died during the 1994 San Marino Grand Prix at Imola, Italy. Page 2

Malnutrition kills 6m children
Malnutrition is implicated in more than 6m child deaths a year, says the UN Children's Fund annual report. Page 4

IRA men jailed
Three Irish Republican Army men were jailed for a total of 62 years for their parts in a London bomb plot involving more than six tons of explosive.

Danes seek meteor
The Danish Air Force is searching Greenland for traces of a huge meteor believed to have struck the island on December 9.

Cold kills 18 in E Europe
Cold has killed at least 18 people across western Russia, Ukraine and eastern Europe, with temperatures plunging to minus 45C. Page 2

Blow to French Socialists
A French appeal court stripped senior Socialist Henri Emmanuelli of his parliamentary seat after his conviction in an illegal party financing scheme. Page 2; Observer, Page 18

Albanians jailed
A court in the southern Yugoslav province of Kosovo jailed 15 ethnic Albanians for up to 20 years on terrorism charges after a trial which defence lawyers denounced as a charade. Page 3

Church attacks 'moral decay'
Patriarch Alexiy II of the Russian Orthodox Church attacked "moral decay" on television and Moscow's plans for sex education in schools.

Legal move against spy
Britain's attorney general won an injunction stopping spy George Blake from receiving £90,000 ($146,000) in royalties from a book about his years as a secret agent.

Cricket
West Indies qualified for Friday's Champions Trophy final against England with a 41-run victory over India in the last league match at Sharjah, UAE.

Technical difficulties meant that the FT web site, *www.ft.com*, was unavailable for part of yesterday. We apologise for any inconvenience.

BUSINESS NEWS

Chase unveils far-reaching management shake-up

Chase Manhattan, the largest US bank with more than $350bn in assets, has unveiled its biggest management change since its merger with Chemical Banking two years ago. The reorganisation has increased the power of executives Thomas Labrecque and Donald Boudreau who had been with Chase before the merger. Page 19; Lex, Page 18

Crédit Agricole and Livret Bleu, a French state-run savings account operated by Crédit Mutuel bank, are to be investigated by the European Commission after complaints from commercial rivals about alleged competitive distortions to the country's financial sector. Page 2

Robert Bosch, the German automotive components group, has bought a controlling stake in Motor Systems and Technology, a South Korean joint venture with Kia, the vehicle maker. Page 20

Bank Austria is to merge its central operations with those of Creditanstalt, which it took over a year ago, creating the country's largest banking group. Page 24

Philips, the Dutch group, is to develop more products, price existing lines aggressively and increase spending on marketing in a plan to reassert itself in *consumer electronics worldwide*. Page 19; Hungry animal, Page 22

Dassault Aviation of France has won a $2bn order for 30 Mirage 2000-9 fighters from the United Arab Emirates. Page 4

Daimler-Benz, the German motor and industrial company, is to sell its Temic semiconductor business to Vishay Intertechnology of the US for $500m. Page 19

Nutricia International, the Dutch food group, is to make a friendly bid of Rp329bn ($65m) for 50.1 per cent of the shares in Sari Husada, Indonesia's largest producer of baby food. Page 20

Fleming Mansour, Robert Fleming Securities' Egyptian subsidiary, has become the country's fourth largest brokerage through its purchase of El-Rashad Securities. Page 24

The Hang Seng Index is to include two Chinese heavyweights next month: China Telecom, listed in October, and Shanghai Industrial, Shanghai munici-pal government's investment window company and the first redchip listed last year. Page 19

New Zealand's Reserve Bank warned in its six-monthly report of a sharp downturn in economic growth over the next three years, due mainly to the Asian economic crisis. Page 6

Ford Motor warned that increased Japanese competition *because of the low yen could trigger* a return to acute trade frictions with Tokyo. Page 23

Credit Suisse First Boston, the investment bank, is close to finalising the acquisition of parts of BZW Asia, regional investment banking arm of Barclays of the UK, Hong Kong banking sources said. Page 20

Imax, the Canadian cinema group, is poised for aggressive expansion in Europe, where up to 20 of its high-tech cinemas are scheduled to open over the next three years. Page 24

Hicks, Muse, Tate and Furst Inc, the Dallas-based investment firm, and Venezuela's Cisneros Group, a media and telecommunications conglomerate, are to launch a $500m fund to invest in media properties in Latin America, Spain and Portugal. Page 24

Turkish threat to draw up blacklist of EU companies

Anger over setback at Luxembourg summit

By John Barham in Ankara

Turkish officials are threatening to boycott European Union goods in retaliation for the decision by European leaders to deny Turkey equal status with 11 other countries applying to join the EU.

Turkish ministers said they would draw up an informal blacklist of companies from EU countries deemed to be hostile to Turkey. Only France, Italy and the UK would be exempt.

The Turkish government has broken off political dialogue with the EU, but has rejected a proposal by some ministers to impose a trade embargo. However, Rifat Serdaroğlu, minister of state responsible for customs, said: "If there is a tender conducted by my ministry, I will close the doors to European firms. There is no official decision on an embargo, but these things are never decided officially anyway."

Işın Çelebi, the trade minister, had previously warned that Turkey could impose non-tariff barriers on EU goods. He threatened several times to renegotiate a two-year-old customs union with the EU, which the government blames for last year's trade deficit of $10.85bn with the EU.

The embargo would be difficult to impose on the free-wheeling private sector, which has reacted calmly to the outcome of last week's Luxembourg summit. However, the government has large public contracts it could withhold.

THY, the state-owned national airline, wants to buy 49 aircraft worth some $2.5bn by 2000. It is in negotiation with Airbus, the European aircraft consortium, and its US rival Boeing.

THY said that all contracts had to be approved by the prime minister, but it had received no instructions to break off talks with Airbus.

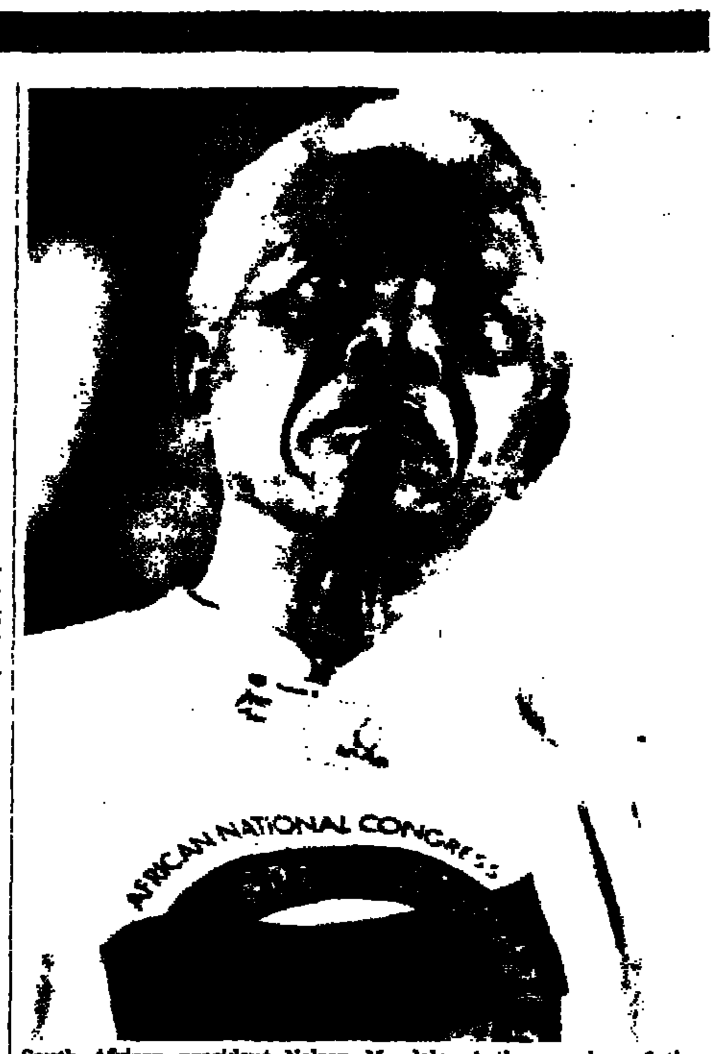
The government is beginning to privatise its power generation and transmission systems, and is offering contracts to international companies to build greenfield power plants. These deals, worth about $3bn-$4bn a year, could also be vulnerable to Turkey's anti-EU policy.

The armed forces plan to spend $150bn on military hardware over the next 25-30 years. The military screens bids, discriminating against countries that have criticised human rights violations in Turkey or imposed export bans of their own.

EU officials said that an embargo would violate the customs union, which allows free trade of industrial goods between Turkey and the EU and requires Turkey to adopt EU commercial laws such as guaranteeing open and competitive markets.

Michael Lake, the European Commission's Ankara representative, said a blacklist would be self-defeating. "Access to the biggest market in the world would be threatened if the customs union were put in legal jeopardy by any form of restriction on the free circulation of goods." The EU would suffer little, given that Turkey is a small, if fast-growing, market for EU companies.

John McCarthy, head of the EU-Turkey Business Group, which comprises EU companies in Turkey, said that the threats were made in a fit of "pique" and should not be taken at face value.



South African president Nelson Mandela at the opening of the African National Congress's general congress yesterday. In a five-hour speech he expressed anger at white attitudes. Report, Page 18 AP

'Political interference' in bank asset sale

By Andrew Jack in Paris

France's Socialist government yesterday accused the previous centre-right administration of "political interference" in the sale of assets stripped out of the state-owned bank Crédit Lyonnais as part of its 1995 rescue plan.

In the first direct public criticism of the way in which the rescue of Crédit Lyonnais was handled, Dominique Strauss-Kahn, economics, finance and industry minister, said there had been "implicit or explicit" interference which had "thrown suspicion on the whole process" of asset sales.

Speaking in the National Assembly, Mr Strauss-Kahn did not cite specific examples. There has been intense debate about political interference in the handling of former Crédit Lyonnais assets, including the airline AOM and a 25 per cent stake in Artemis, the family holding company of François Pinault, a financier close to President Jacques Chirac.

Mr Strauss-Kahn also announced reforms of Consortium de Réalisation (CDR), the body set up to sell FFr200bn ($33.5bn) of assets removed from Crédit Lyonnais after the bank reported huge losses in the early 1990s. One of the changes is the replacement of Michel Rouger, the former head of the Paris commercial court, as head of CDR by Raymond Lévy, a former chairman of Renault.

Mr Strauss-Kahn's moves come as the French government is fighting to win approval from EU competition authorities for a new rescue plan for Crédit Lyonnais. A decision has already been

Continued on Page 18
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Analysts gloomy at Tokyo's new parcel of rescue plans

By Paul Abrahams and Gillian Tett in Tokyo and Gerard Baker in Washington

Japan's ruling Liberal Democratic Party yesterday announced the third package in as many months aimed at averting disaster in Japan's financial industry. The package was immediately greeted with disappointment by analysts. It later received only a lukewarm welcome by US officials.

The LDP's proposals, which must go before the Diet (parliament), include Y850bn ($6.5bn) of tax cuts to boost the moribund economy and the possibility of the government issuing Y10,000bn worth of bonds to provide emergency aid for some financial institutions.

Ryutaro Hashimoto, prime minister, said: "We are taking bold measures. No matter what happens, we will prevent Japan from causing a worsening of the world economy. As I have repeatedly said, there will not be a world panic sparked by Japan."

However, in a clear indication that the US intends to push Japan to do more to lead Asia out of its economic problems, Robert Rubin, the Treasury secretary, said: "Japan has an enormous opportunity to play a leadership role . . . By putting their own house in order, they can help the rest of the world, too."

The failures last month of two leading securities companies – Yamaichi Securities and Sanyo Securities – and a large regional bank – Hokkaido Takushoku Bank – led to sharp falls in stock markets around the world. There have been widespread fears that other Japanese financial institutions could collapse, leading to further tightening of credit elsewhere in Asia, and the sale of Japan's holdings of US treasuries.

Analysts expressed disappointment at the plan, which had been widely leaked. "Doesn't add up to much," said Alexander Kinmont, strategist at of Morgan Stanley Dean Witter in Tokyo. "There has been no reversal in the administration's tight fiscal stance."

US officials gave a cautious welcome to the measures aimed at restoring financial stability but were sceptical about the impact of the fiscal measures designed to bolster demand.

Economists said the tax cuts announced yesterday, which were equivalent to about 0.2 per cent of gross domestic product, would do little to boost the economy. The government expects to cut public spending significantly next year. Economists estimated this could reduce gross domestic product by 0.5 per cent. The economy was in effect in recession. In the six months to September, GDP contracted 1.4 per cent.

A 3 percentage point cut in corporate tax proposed by the LDP was greater than expected. It would bring the rate down to 46.36 per cent – still well above international norms. Other measures included the phasing out of taxes on securities transactions in an effort to boost stock market liquidity. There would also be reform of land and property taxes aimed at boosting the depressed property market.

The Y10,000bn of bonds should provide some support for the financial sector, although the scale of Japanese banks' bad debts was at least three times that amount, analysts said.

Moreover, they were disappointed the LDP had remained so vague about how and when the money might be used. There was also no indication how the bonds would be raised or repaid.

Bond issue, Page 6
IMF, Page 18
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Markets

STOCK MARKET INDICES		
New York: lunchtime		
Dow Jones Ind Av	8003.66	(+81.67)
NASDAQ Composite	1560.43	(+23.87)
Europe and Far East		
CAC40	2912.18	(+73.91)
DAX	4063.97	(+23.93)
FTSE 100	5203.4	(+81.6)
Nikkei	15,985.21	(+76.82)
US LUNCHTIME RATES		
Federal Funds	5.5%	
3-mth Treas Bills: Yld	5.229%	
Long Bond	102¼	
Yield	5.957%	
OTHER RATES		
UK: 3-mo Interbank	7⅞%	(same)
UK: 10 yr Gilt	107.0938	(107.073)
France: 10 yr OAT	101.57	(101.56)
Germany: 10 yr Bund	105.15	(same)
Japan: 10 yr JGB	109.46	(109.45)
NORTH SEA OIL (Argus)		
Brent Dated	$16.86	(16.86)

GOLD		
New York: Comex		
(Dec)	$283.4	(284.5)
London:		
	$285.45	(same)
EXCHANGE RATES		
Dollar		
New York: lunchtime		
£	1.6368	
DM	1.783	
FFr	5.967	
SFr	1.4417	
Y	130.79	
London:		
£	1.6334	(1.6330)
DM	1.7846	(1.7702)
FFr	5.9767	(5.9281)
SFr	1.4432	(1.4298)
Y	130.645	(130.79)
Tokyo close		Y 130.925
Sterling		
DM	2.9146	(2.8907)

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Inside

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Brussels to probe French mutual banks

By Emma Tucker in Brussels and Andrew Jack in Paris

France's mutual banks were put under investigation by the European Commission yesterday after complaints from commercial rivals about alleged competitive distortions to the country's financial sector.

The Commission announced a two-pronged probe into the Livret Bleu, a state-run savings account operated by Crédit Mutuel, and Crédit Agricole's monopoly right to collect deposits from notaries in rural areas.

The Livret Bleu is a partly tax-exempt savings account aimed at the general public which Crédit Mutuel has the exclusive right to run. It provides a high rate of interest, which is now substantially above market rates.

The Commission considers that the savings system, which is supposed to benefit the public, unfairly helps Crédit Mutuel with state aid. Funds collected through the account currently amount to FFr90bn ($15bn) only part of which are reinvested for the public good, such as social housing.

The Commission points out that a growing proportion of the Livret Bleu savings are reinvested through the Caisse des Dépôts et Consignations, which gives Crédit Mutuel a commission on the funds, "the amount of which has not been satisfactorily justified by the authorities".

France's commercial banks argue that the Livret Bleu lures customers to Crédit Mutuel, which then has an unfair advantage to offer services to new clients.

A similar product, the Livret A, is available through the post office and the Caisse d'Epargne, a banking network whose legal structure is under review. This is also being looked at by Commission officials, although they have yet to launch a formal probe. An official said it was less clear-cut whether the Livret A caused as many distortions as the Livret Bleu.

Crédit Agricole, another mutual bank, has a near-monopoly on accounts maintained by notaries for transactions such as property sales. It also pays a very low rate of interest on the money – 1 per cent – giving it substantial liquidity. Brussels estimates that it has access to virtually free financial resources of some FFr20bn, putting it at a clear advantage over competitors.

Crédit Agricole argues that it is required to channel part of its financial returns to a fund for easing financial burdens on farmers. This, and other public service missions, will be taken into account during the investigation, the Commission said.

France's commercial banks argue that the mutual banks are sheltered from competition and in a position to cut margins because they have no shareholders demanding a return.

The French authorities have one month to respond to the questions raised by the Commission.

● Private postal operators yesterday welcomed a European Commission notice setting out how competition rules will apply to the postal sector, Emma Tucker writes.

The EU has effectively postponed any substantial opening of its $75bn postal market to competition until at least 2003. But private operators want Brussels to ensure that free competition applies in those areas that have been opened up so far – domestic mail weighing more than 350g.

Cold hearts, warm milk in Moscow

When he goes home to bed tonight, Alexei Lavrovsky will bring in an unusual, and somewhat greasy, companion – his car battery. Before that, he will carefully funnel about two shot-size glasses-worth of petrol into his engine oil.

These nocturnal rites are part of Mr Lavrovsky's battle to keep his dented taxi on the road in the teeth of the coldest December weather ever recorded in Moscow.

With temperatures plunging to nearly -30°C, he and 8m other Muscovites are waging a grim struggle against Russia's most ancient and brutal force.

The capital's youngest inhabitants have welcomed the deep freeze. Children in the first four school years were granted the bonanza of two days' holiday.

In a typical northern paradox, the frigid weather has brought skies of Fabergé-egg blue and the brightest sun this normally dingy city has seen all year.

Even the bumper-to-bumper traffic, an ugly symptom of Moscow's capitalist transformation, has abated as drivers less canny than Mr Lavrovsky have been forced to leave their frozen vehicles standed in their parking spaces.

But the bitter temperatures have attacked the city's buildings, tearing a crack into one 16-storey apartment block and forcing its residents to seek refuge elsewhere. The cold has caused fires, killing at least 13 people, as Muscovites resort to electric heaters and overburden the grid.

Most of the winter's casualties belong to Moscow's 300,000 homeless people. But their plight has won little sympathy from the city fathers, who have made no special provision for the homeless in the cold snap.

This chilly attitude is in part a legacy of the Soviet era, when being jobless and homeless was a crime. Many Russians are convinced that death by freezing is usually self-inflicted, because most victims give in to the cold only after serious drinking. Yet that danger has not dimmed Russia's faith in vodka as one of the most reliable weapons in the annual fight against the weather.

Every home and office contains at least one "medicinal" bottle of vodka, which is rubbed on cheeks and noses frozen white by the cold. Those Russians who, like Boris Yeltsin, the president, fall victim to winter flu are certain to be doctored with liberal doses of vodka, perhaps laced with warm milk and honey.

Even Moscow's wildest inhabitants – the tropical imports in its zoo and circuses – are occasionally bolstered with a shot of Russia's favourite drink.

According to Emilia Borovik, editor-in-chief of The Big Moscow Circus magazine, elephants in travelling circuses are sometimes fed "vodka, or even a little brandy" to help them bear the cold and strain of moving to a new venue.

At the Moscow City Zoo, the elephants have a more refined palate. Natalya Istratova, the zoo's spokeswoman, said that in stressful situations the elephants are poured a bucketful of gin-and-tonic. But she added: "Drinking in the cold is as bad for elephants as it is for people. It dilates the blood vessels and makes it easier to freeze to death."

Perhaps the toughest winter job is that of the newly reinstated Kremlin honour guard at the Tomb of the Unknown Soldier.

Decked out in fur hats and greatcoats, the young soldiers on duty must stand at attention in one-hour shifts around the clock. With characteristic pride in Russia's ability to withstand the elements, the Kremlin says it has no intention of removing the honour guard because of inclement weather, although, if it gets really cold, the shifts might be shortened to 30 minutes.

"You couldn't do this with a fancy western car," Mr Lavrovsky said last night as he extracted his car battery from the engine for the third night in a row. "Your complicated computer systems would fail. You would have all sorts of problems. You can only do this with a Volga."

Chrystia Freeland

As temperatures plummet, homeless Muscovites sleep in the snow Reuters

US praise for Nato partners in Bosnia

By David Buchan in Brussels

The US administration yesterday signalled greater satisfaction than before with its European Nato partners' commitments to share the burdens of keeping peace in Bosnia and of enlarging the alliance.

Looking ahead to the coming battle on Capitol Hill over US forces staying on in Bosnia beyond next summer, Madeleine Albright, the secretary of state, assured fellow Nato foreign ministers she "had no problem" praising Europe's contributions to Bosnia in providing troops and aid, though she called on Europeans to shoulder more of the cost of training and equipping police there.

Poland, Hungary and the Czech Republic yesterday signed protocols of accession, which when ratified by Nato parliaments will take the alliance's membership to 19. The US joined its partners in endorsing the cost of enlargement as "manageable" and the communique went on to say that the present and planned forces of the 19 "are sufficient to ensure fully the collective defence of all members of the enlarged alliance in the present and foreseeable security environment".

Ismail Cem, the Turkish foreign minister, said Ankara would not seek to block Nato's enlargement of the East as a weapon in Turkey's latest dispute with the European Union. But, still smarting from the EU's refusal to put Turkey on the same footing as other membership applicants, Mr Cem maintained his threat to match any move by the Greek Cypriot-controlled Cyprus government to enter the EU with a parallel "integration" of the Turkish-controlled northern part of the island with the Turkish mainland.

Robin Cook, foreign secretary of the UK, which takes over the EU presidency next month, called on Turkey to "cool it". He said he hoped Turkey would still attend the planned "European conference" next spring, but even if it did not, the conference would still go ahead for other would-be members. Mrs Albright said she hoped the EU-Turkish dispute would be resolved. "We feel very strongly Turkey needs to be oriented towards Europe."

Nato is due in 1999 to discuss a second wave of entrants. Mrs Albright cautioned against "making specific commitments to specific countries", and yesterday's communique omitted Romania and Slovenia, which the Nato summit in July had mentioned as likely candidates.

Edward Mortimer, Page 16

Employers' new leader will fight 35-hour week

Patronat's man of steel

By David Owen in Paris

France's main employers' federation yesterday chose a new president who has vowed to spearhead business's fight against government proposals for a 35-hour week.

Ernest-Antoine Seillière de Laborde, a member of the ninth generation of a Lorraine steel dynasty, takes over from Jean Gandois, who resigned in October over the Socialist-led government's plans to cut the maximum working week from 39 to 35 hours.

The fight over the proposed law promises to give a new lease of life to Mr Seillière's organisation, the Conseil National du Patronat Français.

"I have often said France was a country not working well, but where the companies worked well," he said in an interview this week in the Paris office of Compagnie Générale d'Industrie et de Participations (CGIP), the industrial holding company he has headed for 10 years. "With the 35-hour work week, unfortunately, there is a risk the companies may work badly in a country that works badly."

Seillière de Laborde

What really raises Mr Seillière's hackles is the government's decision to make the 35-hour week what he terms "a legal obligation". "The idea that on the eve of the euro, one is saying: 'Thirty five hours, and I am imposing it on you' – to all entrepreneurs employing 10 people or 1,000, in a Dassault research centre or a team of cleaners who leave in the morning to clean offices in Périgueux; everyone – that will not do. It is so much against freedom. That creates a strong reaction.

"I am all for the euro," he says, peppering his French sentences with colloquial English. "But it is unthinkable French business should arrive there handcuffed. "What is enough to make you die laughing is that the civil service is not affected; they found it too costly and complex. So they are imposing on all French companies something ministers say they cannot do themselves.

"The only place there is a formidable lode of productivity [to be mined], where you could . . . . find 50 per cent more productivity, is the civil service."

Also, he discounts the suggestion business could satisfactorily counter the government's proposals by asking existing workers to put in more overtime.

Mr Seillière's period at CGIP, where he will spend about 50 per cent of his time, has given him a reputation as an imaginative businessman putting more faith in free market economics than most of his fellow-graduates of the Ecole Nationale d'Administration.

One phenomenon which may not long survive his rise to the presidency is reference to the CNPF as the Patronat. He calls it "organisation of entrepreneurs".

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Landfill rules agreed

By Michael Smith in Brussels

European Union environment ministers yesterday provisionally agreed controversial rules to reduce the amount of waste sent to landfill rubbish tips.

But the proposals are weaker than sought by the European Commission, the EU's executive, and could face opposition when debated in the European parliament early next year.

Opposition from the parliament helped to sink an earlier proposal. The Commission said yesterday its proposals had been watered down too much.

The 15 ministers agreed to reduce the amount of organic waste sent to landfill to 75 per cent of 1995 levels in 2006, to half in 2009 and to 25 per cent in 2016.

The countries that dispose of more than 80 per cent of their biodegradable waste on tips – Britain, Ireland, Spain and Greece – will have an extra four years to comply.

Exemption for those countries was instrumental in securing agreement. With Portugal, they had previously opposed the directive and could have blocked it.

The Commission had pressed for a cut to 75 per cent of 1995 levels in 2002, to 50 per cent by 2005 and to 25 per cent in 2010.

Michael Meacher, environment minister in the UK, which assumes the presidency of the EU next month, said the changes would be greatly welcomed by landfill operators.

Landfill sites can cause severe soil and water pollution while the rotting of their organic content creates methane, an explosive and powerful greenhouse gas.

Waste that can no longer be dumped on tips will have to be recovered, recycled, composted or incinerated.

As well as limiting organic waste, the landfill directive will also ban the dumping of tyres, require prior treatment of some waste intended for tips and increase dumping prices to account for factors such as pollution and dump closure.

But to Commission disappointment, the deal agreed by ministers will not cover small islands, isolated areas or slag heaps, while it will allow waste to be disposed of in underground sites, and hazardous and non-toxic rubbish to be mixed. Another change to the Commission's draft directive removes the obligation to treat all wastes before landfilling.

NEWS DIGEST

Fourth firm in Swiss search

Paul Volcker, former US Federal Reserve chairman, has hired a fourth international accountancy firm in order to speed up his search for unclaimed dormant accounts of Holocaust victims in Swiss banks.

Coopers & Lybrand will contribute more than 100 auditors to work alongside the forensic auditors of Arthur Andersen, KPMG and Price Waterhouse. The extra auditing firm will concentrate on the search inside the smaller of the 233 Swiss banks.

Mr Volcker said the second phase of his investigation had not begun because of wrangling over the terms of the insurance policy which will indemnify the auditors against risk of being sued themselves.

He said the target was still to complete the investigation by the end of 1998. He reiterated his view that, if US class actions against the Swiss banks came to trial, it would "enormously complicate our job". However, Edward Fagan, a lawyer involved in the US class actions, said that the Volcker committee was taking too long and he favoured a negotiated one-time global settlement of claims against the Swiss banks. *William Hall, Zurich*

■ CZECH PREMIER

Havel picks bank chief

President Vaclav Havel said yesterday that the governor of the Czech central bank, Josef Tosovsky, would be appointed prime minister today. He said the administration would serve for only a limited period of time and would seek a vote of confidence in parliament in January.

Vaclav Klaus, the outgoing prime minister, and his three-party coalition cabinet resigned on November 30 over a party funding scandal. The new administration is likely to have a caretaker role ahead of early elections.

"Mr Tosovsky enjoys the support of the three current coalition parties and he is, as I have understood, acceptable also to the [opposition] Social Democrats," Mr Havel added. *Reuters, Prague*

■ DEATH OF SENNA

Williams cleared over crash

The threat of a Formula One boycott of Italy receded yesterday, after Williams-Renault team principal Frank Williams and five other defendants were cleared of manslaughter over the death of driver Ayrton Senna in the 1994 San Merino grand prix.

Mr Williams, technical director, Patrick Head, and former chief designer, Adrian Newey, were alleged to have been responsible for what the Imola prosecutor claimed was a faulty steering column weld causing Senna to crash at 220kph.

The charges caused outrage within the F1 community, partly because of the close relationship between Mr Williams and Senna and partly because of what Formula One saw as a slight on its integrity.

The FIA, motor sport's governing body, had warned it could not guarantee teams would race in Italy if the prosecution succeeded. *John Griffiths*

■ YELTSIN TIMETABLE

Russian budget faces delay

Russian parliamentary leaders said yesterday the second reading of the draft 1998 budget would not go ahead tomorrow as planned, but would be postponed until at least December 24. The delay is likely to scotch the hopes of Boris Yeltsin, the president, that the budget, which has passed its first reading, would win final backing before the end of the year. His personal intervention earlier this month helped secure parliamentary support for the budget's first reading.

But Mr Yeltsin, who has been recovering from a cold in a sanatorium outside Moscow, appears unlikely to repeat that performance. Russian media reported yesterday that he might stay away from work for three more weeks.

If the 1998 budget is not approved by the year's end, spending each month will be set at one-twelfth of the 1997 budget. Parliamentarians said they were delaying consideration of the budget because of a government proposal to increase spending for debt servicing and cut it from other areas. Recent turbulence in Russian capital markets has pushed up the Russian government's cost of borrowing. *Chrystia Freeland, Moscow*

■ UK AND EUROPE

Emu target date urged

The move towards a larger, more diverse European Union creates new opportunities for Britain, but only if it does not long delay joining the single currency, according to a report published yesterday. The report, "Equal Partner: Britain's Role in a Changing Europe", was written by a panel of mainly business and academic experts organised by the Royal Institute of International Affairs in London.

It recognises the legacy that hostile rhetoric has left in stoking public British opposition to European economic and monetary union. But it argues that Emu is so important that the Labour government must take the lead in turning public opinion around, preferably by setting a target of 2002 for Britain to adopt the euro.

Joining the euro will "quickly become the defining feature of EU membership", says the report. Even if the UK stayed out of Emu for a short time, "the loss of British influence will be swift and stark", it said. *David Buchan, Diplomatic Editor*

■ GERMAN ECONOMY

Business sentiment weaker

Worries about economic developments in Asia may have knocked business sentiment in Germany, the Munich-based Ifo institute's latest survey of business sentiment suggested yesterday. Its November business climate index dropped from 99.7 to 99.1 – the second consecutive monthly fall. The German economy, which is expected to witness an significant acceleration in growth next year, is being driven largely by exports.

Meanwhile federal statistical office figures for wholesale trade prices pointed to a slight easing of inflationary pressures, with the annual rate of increase falling in November to 2.7 per cent compared with 2.8 per cent in October. *Ralph Atkins, Bonn*

■ CONSORTIUM INVESTMENT

Albanian $250m oil venture

A consortium led by Premier Oil, the independent UK exploration and production company, is to invest $250m to develop Albania's biggest onshore oil field. The project, the largest single foreign investment made in Albania, is seen as a vote of confidence in the new Socialist-led government. It is expected to more than triple the country's crude oil production.

The agreement, due to be signed last night during the visit to London by Fatos Nano, Albanian prime minister, is for the development of the Patos Marinze heavy crude oil field, where production is to be increased from 6,000 barrels a day to between 25,000 and 50,000 barrels a day within four years.

The consortium includes Premier Oil, with a 25 per cent stake, Preussag, the German metals, transport and tourism group, 17.5 per cent, International Finance Corporation, 15 per cent and Albpetrol, the state-owned oil company, 42.5 per cent. *Kevin Done, London*

Reform programme eludes Romania

Anatol Lieven on pressure to overcome bureaucratic delays and introduce real changes

For all its brave talk about joining Nato and the European Union, Romania's year-old government is gradually acquiring a reputation for indecisiveness, bureaucratic snarls and an inability to push through reforms.

"Thanks to the previous regime of Ion Iliescu, we're already running several years behind the rest of central Europe. If we really want to join Nato and the EU, we don't have time to mess around like this," said Dorel Sandor, a leading Romanian political scientist.

A recent government reshuffle was intended to put fresh life into the stalled reform process.

But Petre Roman, chairman of the Senate and leader of the Democratic party, which is a key part of the ruling coalition, warns that if the government is not seen to get on with effective reforms within three months, he will seek a new leader to replace Victor Ciorbea, the current prime minister.

Privatisation is the touchstone of reform. But the government seems unable to chose between Hungarian-style cash privatisation, which would allow foreign strategic investors to buy full control of Romanian banks and flagship industries at the cost of short-term job losses, or opt for the apparently less painful, but now discredited, voucher privatisation route championed by the Czech republic.

"When one compares the export and investment-led growth of the Hungarian economy with the stagnant Czech economy, the choice would appear a foregone conclusion. But there is still real fear of foreigners taking over. The problem is a mixture of nationalism and fear that Romanian inexperience will lead to them being cheated," a diplomat explained.

Many Romanians favour the Czech approach because it is seen to favour domestic investors. While offering moderate encouragement to western investment, it would keep shareholdings in certain sectors fragmented rather than allow control by a single owner. Such an approach is seen as avoiding heavy unemployment and showdowns with the unions.

Foreign bankers and advisers agree that the current government is much more reform-oriented than its predecessors. "A lot of positive things have happened in the field of macro-economics stabilisation over the past year," says Brian Lait, the local head of Deloitte and Touche.

"But all the problems with privatisation remain, partly because of the existence of competing agencies. Real moves only seem to happen in order to please the IMF," he adds.

Observers with experience elsewhere in eastern Europe say the troubles of the Romanian coalition are no worse than those faced by the inexperienced and ideologically divided Hungarian and Polish anti-communist coalitions in the early part of the decade.

Romania is also seen as far ahead of neighbouring Ukraine. But a favourable comparison with Ukraine is not what Romanians are looking for.

Dr Sandor places much of the blame for government incompetence on the inexperience of ministers from the National Peasants' party-Christian Democrats (NPPCD), the senior partners in the ruling coalition.

This is a criticism also made against NPPCD ministers by supporters of Mr Roman, who was prime minister in 1990-91, and who annoys his coalition partners by publicly presenting himself and his colleagues as far more skilled and experienced than the current incumbent.

Mr Ciorbea acknowledged the negative impact of ministerial inexperience in a speech at the time of the reshuffle earlier this month. He also blamed divisions within the coalition. By replacing political ministers with independent technocrats however, Mr Ciorbea has now left himself with no further excuses if reform fails to take off.

Criticism of Mr Ciorbea personally has focused on his alleged failure to get to grips with the details of government. Cabinet meetings have lasted for up to 12 hours and extended over several days, although many ministers present often had nothing to do with the matter at hand.

The government is further hampered by the deep resistance to change in much of the bureaucracy, and the laborious nature of the Romanian legal and administrative process. Setting up the new privatisation ministry as part of the reshuffle, for example, could not be ordered by the prime minister but needed a new law to be passed by parliament.

Western observers criticise in particular the institution of "application norms". These are administrative rules which have to accompany every new law and lay down how it is to be applied in practice.

The privatisation law passed earlier this year, and intended to shorten and simplify the process, was amplified by 120 pages of minutely detailed orders. Drawing up these detailed rules takes up extra time and slows down bureaucratic processes. The foreign investment law, for example, was passed by decree in the summer. But it is still in abeyance while waiting for the normative orders to be drawn up.

A French banker called the application norms, which derive originally from French practice, "the perverted child of a marriage between Napoleonic/Roman traditions and Communism. Instead of general guidelines as in France, here it is taken to mean that everything that is not explicitly allowed is forbidden".

But, he continued sadly: "Romanian bureaucrats cannot live without such rules. With detailed instructions to follow, the official works very slowly. Without them, he is so scared of doing something wrong that he does nothing at all. To change this may take a new generation."

Petre Roman (left) says the government of Victor Ciorbea (right) must be replaced if it fails to pursue reforms vigorously

Socialists criticise ruling against Emmanuelli over election funds

French court strips senior MP of seat

By Andrew Jack in Paris

France's ruling Socialists suffered their first serious setback in office yesterday when an appeal court stripped a senior party figure of his parliamentary seat after his conviction in an illegal party financing scheme.

The ruling means that Henri Emmanuelli, chairman of the National Assembly finance commission, is set to lose his civic rights, including his position as a deputy, for two years.

The judgment by the Cour de Cassation, France's highest appeals court, also upheld an 18-month suspended prison sentence, a FFr30,000 ($5,000) fine and a ban on holding public office. It affirmed that Mr Emmanuelli was guilty of complicity and receipt of funds used for influence-peddling in his role as Socialist party treasurer.

In a sign of growing pressure to challenge the court decision, François Hollande, Socialist party first secretary, said last night that he had asked for a meeting with President Jacques Chirac to see "what it is possible to do" in the wake of the judgment against Mr Emmanuelli. Under France's constitution, the president has powers of pardon. The judgment is the first definitive action against illegal party financing schemes alleged to have been used by many French political parties – from Communists to the centre-right UDF groups – over the past two decade.

The Socialists used a network of consultancies called Urba to raise funds, without any evidence of work provided in exchange. Inquiries began in 1991 after a raid by Thierry Jean-Pierre, a judge who has since become a rightwing politician.

Senior Socialists including Laurent Fabius, leader of the National Assembly, have expressed their sympathy with Mr Emmanuelli. Pierre Mauroy, the former prime minister, said the conviction was unjustifiable because it related to events "before the adoption of legislation on political party financing".

However, the Professional Association of Magistrates hit back at attacks against the appeals court, arguing that politicians should respect the judgment at a time of debate over the need for the justice system to be independent.

Lionel Jospin, the prime minister, who won the battle to take charge of the Socialist party from Mr Emmanuelli in 1995, also expressed his "personal solidarity" without condemning the ruling.

Poles 'dragging feet over EU preparations'

By Christopher Bobinski in Warsaw

Poland needs to speed up its preparations for entering the European Union if it is to achieve its goal of membership early in the next century, according to Rolf Timans, EU Commission ambassador in Warsaw.

"Poland has enormous holes in its legislation," Mr Timans said. He was referring to the need to bring Poland's laws into line with EU regulations, a process which must take place before full membership.

"If the Poles are serious about early entry around the year 2002, then this government and this parliament has to recognise it has to do the bulk of the legislative work soon," he said. "If they don't do this, then this date can't be taken seriously."

Mr Timans was speaking before a new round of talks today in Brussels on an EU demand that Poland lower its steel import tariffs by the end of 1998, as it promised seven years ago.

Meanwhile, to widespread irritation in Brussels, the Polish government has sided with its steel industry, which wants to keep tariffs in place until the end of 2000 and give itself time to modernise Polish production facilities.

Brussels is also concerned that Poland's new government is dragging its feet on completing its ministerial team at the country's European Integration Committee. The government has yet to nominate an official to head its membership negotiations, expected to start next April.

In all, Poland risks acquiring a reputation for being a laggard in relations with Brussels. Poland has yet to reply, for example, to a request made two months ago for Warsaw's comments on the short- and medium-term policies which the EU thinks the Poles should adopt to facilitate accession.

Implementation of these policies is to be a condition for freeing some Ecu460m ($512m)-worth of the EU's Phare aid funds for Poland in the next two years. Other applicant countries have already replied to the request, Mr Timans said.

● Poland needs to cut domestic demand in order to lower imports, whose growth means the country's current account deficit could run as high as 4 per cent of GDP this year, Gerard Belanger, deputy director of the IMF's European Department, said yesterday.

Court jails 15 from Kosovo

By Guy Dinmore in Pristina, Yugoslavia

A court in the southern Yugoslav province of Kosovo yesterday jailed 15 ethnic Albanians for up to 20 years on charges of terrorism after a nine-week trial which defence lawyers denounced as a political charade.

In the biggest trial of its kind in Serbia, the larger of Yugoslavia's two republics, all 15 men were found guilty of belonging to the separatist Kosovo Liberation Army, which has claimed responsibility for attacks on police stations and other government targets.

Diplomats feared the trial would fuel a growing sense of anger and frustration in Kosovo, where ethnic Albanians make up 90 per cent of its 2m people.

Serbia stripped the province of its autonomy in 1989, but is unable to control some rural areas in spite of a heavy police presence.

Three of the accused were jailed for 20 years, and the least sentence was four years. Two men were set free, and two others were found guilty in absentia.

All 17 who appeared in a Pristina court under heavy security alleged police had used torture, including electric shock and beatings, to extract false confessions. Lawyers produced medical reports to back up their claims, but the bench of four Serb judges and one ethnic Albanian dismissed the evidence.

"I knew the verdict two months ago. It was just a parade," said Bajram Kelmendi, a defence lawyer. Another, Adem Bajri, said he had a video of a wedding and 60 alibis to testify that his client, Arif Vokshi, could not have carried out the attack he was accused of. Mr Vokshi was jailed for 20 years.

Western governments say human rights abuses by Serbian forces in Kosovo are among the worst in Europe. The US and European Union have made progress on the Kosovo issue a key condition for lifting economic sanctions on Yugoslavia.

EU tells telecoms groups to isolate cable TV

By Emma Tucker in Brussels

Dominant telecommunications operators will be forced to establish their cable television interests as legally separate entities to prevent creation of "super-monopolies" under a draft law adopted by the European Commission yesterday.

The rule will apply only where a telecoms company's cable TV activities are also dominant, as is the case with Deutsche Telekom, which recently agreed to a structural separation of its cable activities. In the Netherlands, Koninklijke PTT Nederland has significantly cut its stake in its cable operator Casema.

Brussels proposed the move to ensure there is fair competition in the European cable sector. Restrictions on the sector have been progressively lifted, but the Commission and private operators were worried that the old telecoms monopolies had built up extensive cable interests before next year, when full telecoms liberalisation, including for basic telephony, will take off.

The Commission is acting under special powers that allow it to circumvent the EU's cumbersome decision-making process in order to liberalise a sector.

Brussels judged that an accounting separation would be insufficient to ensure that dominant telecom operators did not abuse their cable interests. Officials believe this would only render financial flows more transparent, whereas legal separation would allow greater transparency of assets and costs.

The Commission also maintains the right, under EU competition law, to require a telecoms company to abandon its cable activities altogether, if it this is judged necessary after a complaint or a merger.

● The Commission has closed an investigation into a proposal by the Italian government to give research and development aid to SGS-Thomson, one of Europe's most successful semiconductor manufacturers, after the Italy dropped the planned Ecu18m ($20m) funding.

In a move that sparked a furious quarrel with Edith Cresson, the commissioner for research and development, Karel Van Miert, competition commissioner, said the aid was illegal and proposed blocking it. But he failed to win enough votes in the Commission and the decision went into limbo.

Gulf state is to buy 30 Mirage fighters and update existing fleet

Dassault wins $2bn UAE order

By Alexander Nicoll in London and David Owen in Paris

Dassault Aviation of France received a boost yesterday when the United Arab Emirates put in a $2bn order for 30 Mirage 2000-9 fighters.

The deal, under which Dassault will also upgrade the UAE's existing fleet of 33 Mirage 2000s, is likely to reinforce the determination of Serge Dassault, the company's head, to resist pressure to merge the company with Aerospatiale, the French state-owned group.

The agreement came during a visit to Abu Dhabi by President Jacques Chirac, who said it meant "15,000 jobs for five years in France".

It will mean considerable business for other companies, including France's state-owned Snecma which will supply engines, and Thomson of France which will fit radar systems to the 63 aircraft.

Matra BAe Dynamics, a joint venture between British Aerospace and Matra, part of the Lagardère group of France, is expected to be in a strong position to win contracts for missiles, though GEC-Marconi is also believed to be competing.

Though yesterday's agreement was large, the defence industry is closely watching the progress of a bigger order for 80 next-generation fighters which the UAE will place in the next few years.

Dassault is competing with its Rafale, for which it so far has only 13 on order for the French air force. The favourite is likely to be a version of Lockheed Martin's F-16, though the UAE will also consider the Eurofighter, the four-nation European aircraft, after viewing a development model.

Industry observers believe the French government may try to use the Rafale programme as a bargaining chip to encourage Dassault to merge with Aerospatiale as part of plans to rationalise both the French and the European defence industry.

But Dassault's improving financial position leaves it well placed to stave off such proposals. Mr Dassault has said he will merge with Aerospatiale only if the combined group is privatised.

Dassault recently said 1997 turnover should reach FFr21bn ($3.5bn), up more than 60 per cent from 1996, and that it had a FFr8.3bn net cash position.

Bankers reject terms for Vietnam power project

By Jeremy Grant in Hanoi

Bankers yesterday dismissed Vietnam's first foray into build-operate-transfer (BOT) power projects, saying terms offered for a $500m World Bank-backed scheme fell short of what would be needed to attract financing – even without the Asian financial crisis.

Bidding documents were released last month to 10 foreign groups interested in Phu My 2.2, a 700MW gas-fired plant planned for southern Ba Ria-Vung Tau Province. The scheme sets a benchmark for privately financed power in the communist-run country, and the government has received World Bank advice on how to structure terms.

But investors reacted coolly, saying Hanoi had dodged giving clear pledges on government guarantees, and serious questions remained over convertibility of the local currency, the dong.

"Fundamentally, it's an incomplete document and it's unfinanceable," said a banker advising one of the interested parties. They include Mitsubishi, Tomen and Nissho Iwai of Japan; Unocal, GE Capital, Enron and AES Transpower of the US; and British Petroleum, Electricité de France and Asea Brown Boveri, the Swiss-Swedish group.

Few of the recommendations made by the World Bank and K&M Engineering, the US consultants, appear to have been incorporated into the bidding documents. "This is not as far as we'd have liked them to go," a bank official said. Electricity demand in Vietnam is growing by 14 per cent a year and donors have sent clear signals to Hanoi that it cannot expect official development assistance (ODA) to fund all its power needs.

Yet Vietnamese officials are reluctant to embrace the commercial concepts underpinning BOT, bankers say.

"They really could get something done quite well and to their advantage. But they seem to think that foreign investors are out to rip them off. All that does is drive up the return that foreigners require – and that ends up costing the Vietnamese more in the end," said another banker.

Hanoi's approach to Phu My 2.2 stands in stark contrast to recent government promises to improve the climate for foreign investors, and is likely to add to current fears that the rhetoric may not be followed by reform.

Analysts said Hanoi had also squandered a chance to avert a power crunch, imminent as crumbling, Soviet-era power systems strain to cope with rapid growth in electricity demand.

Bids for Phu My 2.2 are due by late February but the project is already 18 months behind schedule due to red tape.

Further slippage was likely because of the Asian financial crisis. Robert Dewing, managing director of project finance at Citicorp in Hong Kong, said: "The turmoil in the market means it's getting much harder to close the financing [on such deals]."

Nacco set to build China plant

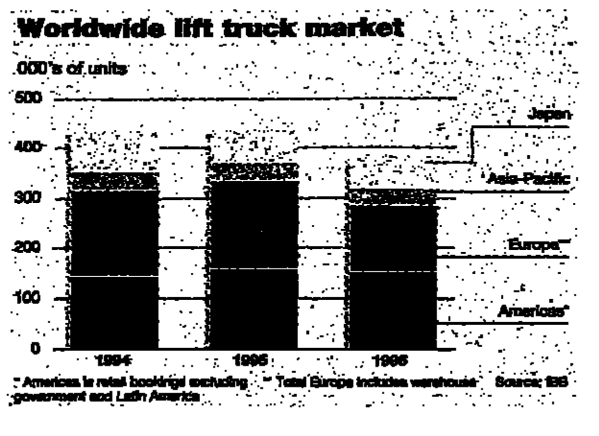
By Peter Marsh in London

Nacco Industries, the biggest US maker of lift trucks, is poised to set up its first factory in China to take advantage of the country's accelerating efforts to industrialise over the next decade.

The plant, earmarked for Shanghai, would be the second foreign-owned factory in China making lift trucks. It would step up Nacco's rivalry with Linde of Germany, the world's biggest producer, which set up its Chinese production unit in 1994 with an investment of DM200m ($113m).

Lift trucks are among the most widely followed bellwethers of industrial growth, being used extensively in manufacturing, distribution and retailing.

World production is put at about 450,000 units a year, worth some $12bn at retail prices. Nacco is in third place in the industry in sales, after Linde and Toyota of Japan. Last year it made 69,000 vehicles, earning $1.6bn.



Alfred Rankin, Nacco's chairman, said in an interview that the company was "actively working" on its Chinese venture. The new plant would be operated in partnership with Sumitomo Heavy Industries, the Japanese engineering company with which Nacco already runs lift truck factories in Japan and the Philippines.

The new factory, expected to be announced early next year, would mark a significant step in Nacco's global ambitions. Besides its US and Japanese plants, it has factories in Britain, Italy and the Netherlands.

Mr Rankin said that in the Chinese venture it would take a "step by step" approach. Even though the Chinese lift truck industry had grown less dramatically than he had expected, it still represented "an important future market".

At its Xiamen plant, Linde is making 3,000 trucks a year and plans by early next century to increase this to 20,000. Total Chinese sales are put at about 30,000 a year, with most coming from local producers which commonly charge lower prices than for the more sophisticated products of western manufacturers.

Japanese companies including Toyota also have large sales operations in the country.

It is likely that Nacco would want to follow the lead of Linde and operate its Chinese factory at least partly to sell to other parts of south-east Asia. Lift truck sales in this region, excluding China and Japan, are put at some 20,000 a year, making it roughly the same size as the Chinese market.

Nacco, a holding company, sells its trucks under the Yale and Hyster names.

NEWS DIGEST

Banana states' WTO threat

Some Caribbean countries are so concerned about their banana industry, after losing a case at the World Trade Organisation, that they are talking about withdrawing from the trade body, according to Richard Bernal, Jamaica's ambassador to the US. The region's banana industry provides 75 per cent of its gross domestic product and 85 per cent of its exports. Officials worry that if it collapses because the WTO ruling deprives it of assured markets in Europe, larger ships will no longer come to the region to trade. "Trade liberalisation is a means to the end. The end is development and prosperity for all," Mr Bernal said. "The WTO must recognise that there are vast differences in size and level of development among its membership."
Nancy Dunne, Washington

■ TELECOMMUNICATIONS PACT

Start of WTO deal delayed

A global pact liberalising basic telecommunications is expected to come into force next February, instead of January 1 as originally planned, because a number of countries have failed to ratify the World Trade Organisation accord on time. Meeting yesterday, the 50 countries that have ratified the pact came close to agreement on a February start-date, giving extra time for laggards to ratify. A formal decision will be taken tomorrow. Of the 69 countries that signed the accord last February, 19 did not ratify by the December 1 deadline, including important markets as Belgium, Brazil, Spain and Argentina.
Frances Williams, Geneva

● Aluminium Bahrain (Alba) has signed an agreement with Germany's Mannesmann KTI to set up a $400m calcined coke plant in the Gulf Arab state. Bahrain's oil and industry minister, Sheikh Isa bin Ali al-Khalifa, said the plant would be able to produce 450,000 tonnes a year of calcined coke, which is used in the manufacture of aluminium. Alba said the plant would be completed in 2000. Alba is 77 per cent owned by the Bahraini government and 20 per cent held by Saudi Arabia's Public Investment Fund. German group Breton Investments holds the remaining 3 per cent.
Reuters, Manama

UK, France and Germany in military satellite pact

By Alexander Nicoll, Defence Correspondent

Moves towards better co-ordination of European defence procurement took a step forward yesterday with an agreement between Britain, France and Germany on joint purchasing of the next generation of military satellites.

The three governments, which last week called on companies to initiate a cross-European rationalisation of the arms industry, are setting up a joint project management team and have agreed on a common procurement strategy for the new satellite communications system.

Defence manufacturers say joint procurement is one way governments can help them make savings. However, a joint governmental agency set up to do this, the armaments co-operation organisation (Occar), has made slow progress.

Occar will manage implementation of the satellites programme, known as Trimilsatcom. The eventual purchase of at least four satellites is expected to be worth more than £1bn ($1.6bn).

The governments are asking two separate groupings to carry out parallel competitive studies in the project definition phase of the programme, which in Britain has been known as Skynet 5, due to replace Skynet 4 satellites in the middle of the next decade.

The groupings are led respectively by Alcatel of France and Matra-Marconi Space, a joint venture between the Matra subsidiary of France's Lagardère, and GEC-Marconi of the UK. After the studies, the governments are likely to pick one of the two as prime contractor for building the satellites and upgrading ground facilities.

The planned shared use and joint ownership and management of the satellites represents an advance on previous collaborative programmes which have generally produced different specifications for each country's version of aircraft and ships produced.

Three foreign banks to set up in Algeria

By Roula Khalaf in London

Three foreign financial institutions are to open commercial banks in Algeria, despite the brutal five-year civil war which has claimed 60,000 lives.

Within six months, Citibank will upgrade its representative office in Algiers to a full bank. And with backing from the International Finance Corporation (IFC) – the private-sector arm of the World Bank – France's Société Générale and the Bahrain-based Arab Banking Corporation (ABC) will also open banking subsidiaries.

The World Bank and the International Monetary Fund have been strong supporters of economic reforms in Algeria, despite criticism that financial aid has only helped to bolster the army-backed government.

According to Mansour Kelada-Antoun, IFC representative for North Africa, the agency is willing to invest outside the financial sector if viable private-sector projects are presented.

ABC is putting up 70 per cent of the $20m equity in its bank, with another 10 per cent taken up by the IFC and the rest by Algerian investors. The IFC is also injecting 10 per cent of the $10m capital in the Société Générale deal, which also includes Algerian businessmen.

Citibank has run a representative office from a hotel in Algiers, headed by an Algerian, since 1992. Citibank officials say opening a fully-fledged bank will allow them to service the growing oil and gas business and expand trade finance operations.

The Algerian government has been eager to trumpet the arrival of foreign banks as proof of its ability to attract foreign investment in spite of the violence and international criticism of its human rights record. So far, only the oil and gas sector, sheltered in the well-guarded southern desert, has received significant amounts of foreign investment.

Though the capital put up by the banks is tiny compared to Algeria's needs, competition from foreign institutions – which will target state and private-sector companies – will speed reform in a financial sector dominated by the state and crippled by lending to loss-making state enterprises.

Algeria's private sector complains of lack of access to credit and of political meddling in the banking sector. Western bankers who deal with Algeria say opening the sector to foreign competition is the key to breaking political interests' hold on credit, and moving to a market economy.

Mr Kelada-Antoun said yesterday that the explosion in violence in recent months had not delayed plans for the new banks. "We are committed to helping the Algerians in their economic development and not tying investment decisions to events of the past months," he said.

A Citibank official, however, said foreign institutions would carefully weigh the number of expatriates to be sent to Algiers. "This is a difficult time. Expanding in Algeria will have to be done cautiously," he said.

NEWS DIGEST

Iraq confronts the UN again

Richard Butler, the chief United Nations weapons inspector, yesterday left Iraq after failing to obtain access to sites that Baghdad has placed off limits for UN inspectors.

"Iraq said the presidential and sovereign sites are off limits forever, no matter what happens. Now that's very serious because the UN Security Council has said – and it's the law – that we have to be able to go anywhere, anytime, to find the weapons that we need to get rid of," Mr Butler said.

"We had some technical talks about disarmament and we also had policy talks about access to those sites. It was a mixed bag," said Mr Butler, whose commission since the end of the 1991 Gulf War has been responsible for dismantling Iraq's weapons of mass destruction and their production facilities.

Mr Butler met Tariq Aziz, Iraq deputy prime minister, for talks on missiles, and chemical and biological weapons.

Mr Butler said he would tell the Security Council tomorrow it must decide whether Iraq's refusal to comply fully was acceptable or not.
Laura Silber, New York

■ ISRAELI UNEMPLOYMENT

Netanyahu takes crisis action

Benjamin Netanyahu, the Israeli prime minister, said yesterday he was setting up an emergency committee to deal with growing unemployment.

The jobless total rose to 151,000 last month – nearly 9 per cent of the labour force. However, the rate is as high as 14 per cent in regions once dominated by manufacturing and textiles but where companies have shifted production to Jordan where labour costs are lower.

The Bank of Israel is under pressure to cut interest rates to boost growth and jobs. The economy will grow 2.2 per cent this year compared with 4.5 per cent in 1996.

The key lending rate is 13.4 per cent. The BOI, however, wants to adhere to its tight monetary policy in a bid to curb inflation. The CPI fell 0.3 per cent last month, cutting the inflation rate to 7.9 per cent for the first 11 months of the year.
Judy Dempsey, Jerusalem

■ OMAN POLITICS

New oil minister appointed

Oman yesterday reshuffled its cabinet, appointing a new oil minister and creating a separate justice ministry, officials said. They said Sultan Qaboos issued a decree appointing Mohammad bin Seif al-Ramhi to head the renamed ministry of petroleum and gas, replacing Said bin Ahmed al-Shanfari. The decree created a separate justice ministry headed by Mohammad bin Abdullah al-Hinai, the former minister of agriculture and fisheries.
Reuters, Muscat

● The death toll from a cholera outbreak in Nairobi's sprawling slum areas has climbed to more than 30 prompting fears of an epidemic, a health worker said yesterday.

Jonah Kitheka, executive director of Provide International, said a combination of heavy rains, a nurses' strike, poor infrastructure and apathy among local and government authorities had made the outbreak the worst in more than a decade.
Reuters, Nairobi

Malnutrition kills 6m children worldwide a year, says Unicef

By Frances Williams in Geneva

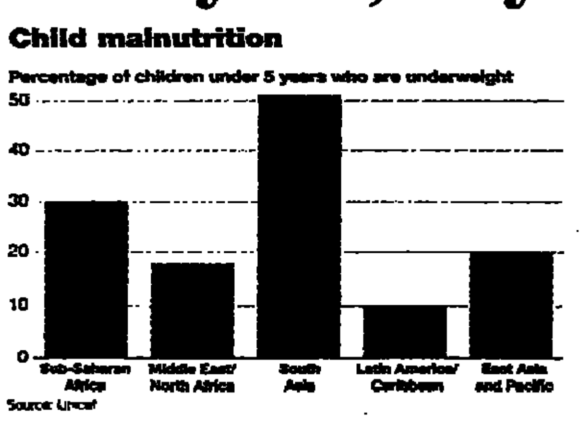
Malnutrition kills more children in the world than any infectious disease, war or natural disaster, yet it remains a "silent emergency" arousing little public concern, the United Nations Children's Fund (Unicef) says in its annual report* published yesterday.

Malnutrition is implicated in more than 6m deaths of children under five each year, more than half all child deaths, and leaves millions of survivors stunted physically and intellectually, according to the report.

"The persistence of malnutrition has profound and frightening implications for children, society and the future of humankind," Carol Bellamy, Unicef executive director, said yesterday.

The report says half of under-fives in south Asia and a third of those in sub-Saharan Africa are malnourished. So too are millions of children, mostly from poor families, in the industrialised world.

The main causes of malnutrition are dietary deficiencies including the lack of essential micronutrients such as iodine, iron and vitamin A. As a consequence malnutrition is largely invisible. Three-quarters of children who die from causes related to malnutrition show no outward symptoms.



Looking at the costs of malnutrition, the report cites research findings that low-birthweight babies have IQs averaging 5 points below normal.

Iodine deficiencies also cause intellectual impairment: in Georgia a widespread iodine deficiency is estimated to have cut the average IQ of the 50,000 babies born last year by 10 points.

Lack of vitamin A, which affects about 100m children worldwide, can cause blindness; even mild deficiencies reduce immunity to disease, notably diarrhoea which kills 2.2m children a year, and measles which kills nearly 1m. Iron deficiency anaemia, probably the most prevalent nutritional problem, affects half the women in developing countries and kills many mothers.

In some countries, such as Bangladesh and India, vitamin and mineral deficiencies are estimated to cost the equivalent of more than 5 per cent of national output in lost lives, disability and productivity.

Just as the economic costs of malnourishment are enormous, so too are the benefits of better nutrition, Unicef says. It notes that about half the economic growth achieved by some western European countries over the past two centuries has been attributed to better nutrition and improved health and sanitation.

The report argues that today's poor nations could reap similar benefits from recent breakthroughs in nutritional science. These offer the possibility of huge improvements in general health at relatively low cost and could also help combat infectious diseases such as malaria and even Aids.

Vitamin A, for instance, which is found in eggs, butter, whole milk and liver, can cut deaths from diarrhoea by 35-40 per cent and deaths from measles by half. Vitamin A also appears to inhibit the transmission of the HIV virus from mothers to their children.

Vitamin A and zinc supplements have cut deaths from malaria, and zinc also helps in reducing mortality from diarrhoea and pneumonia. "Like the breakthroughs in immunisation in the 1980s, such simple low-cost nutritional supplements could be one of the most significant new public health interventions for the late 1990s," Ms Bellamy said.

Already, 60 per cent of all edible salt is iodised, reducing the number of babies at risk of mental impairment from iodine-deficiency by 12m a year. More than 60 per cent of young children worldwide receive vitamin A supplements.

Besides these initiatives, Unicef advocates a broad-based programme to tackle malnutrition, including measures to improve the status of women. Discrimination against women results in women eating "last and least", the report says.

**The State of the World's Children 1998, Oxford University Press, £6.95 or $12.95.*

A child is weighed at a health centre in Ethiopia. Growth monitoring enables health workers to check whether a child is malnourished

NEWS: ASIA-PACIFIC

Disappointment at Japan's tax plans

By Paul Abrahams in Tokyo

Japan's governing Liberal Democratic party yesterday proposed Y850bn ($6.5bn) of tax cuts as part of a crucial economic package, but analysts largely dismissed the tax plans as inadequate.

Most of the economic proposals had already been leaked, although the proposed 3 percentage point cut in corporate tax is 0.5 percentage points higher than expected.

If the proposals are adopted, basic corporate tax would be cut from 37.5 per cent to 34.5 per cent, a post-war low. This would save companies about Y330bn ($2.5bn), in the next fiscal year, starting in April.

There was no indication the rate would be cut further. The Keidanren, Japan's leading corporate lobbying organisation, had called for a 10 percentage point cut.

The overall rate of corporate tax, including local tax, is at present 49.98 per cent. Under the proposals it would fall to 46.36 per cent.

The impact of the tax cuts would probably be mitigated by proposals to compensate for lost revenue by broadening the tax base through cuts in allowances. Analysts said such moves would eventually mean the proposals would be revenue-neutral for the government.

Japan's high rate of corporate tax and generous capital allowances have encouraged companies to invest in non-economic projects. They have also discouraged groups from banking cash that might be returned to shareholders through dividends or stock repurchases. The result has been misallocation of capital through much of the economy.

No changes to depreciation allowances are suggested.

Proposals include:

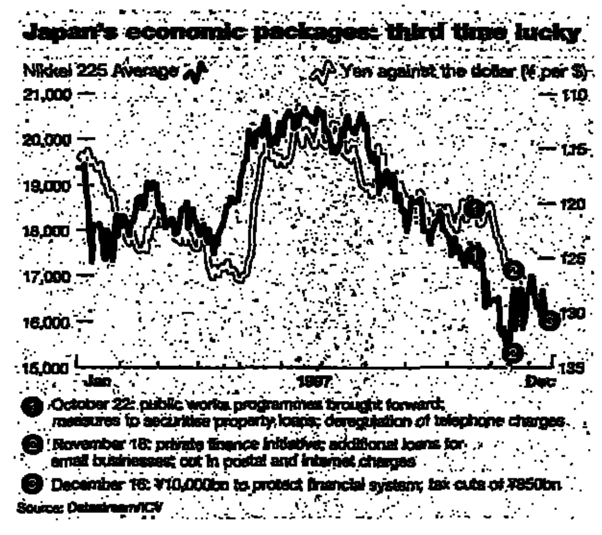
■ Abolition of taxes on securities transactions in two stages. They would be halved next year to 0.1 per cent and abolished by the end of 1999. This would cut tax revenue by Y210bn.

■ Lower taxes on sale of housing and land in an effort to support the depressed property market. A tax on owning land would be abolished. Cost to the government: Y140bn.

■ An increase in tobacco tax by Y0.82 per cigarette to generate funds to cover Y27,800bn of debts from the defunct Japanese National Railways. This should bring in Y260bn a year in extra revenue. Annual interest on the debt is about Y660bn.

"Frankly none of this will make a difference," said Kathy Matsui, strategist at Goldman Sachs. "The financial system is still in a mess and the industrial sector is faced with low demand. And the cuts in corporate tax aren't big enough to encourage returning capital to shareholders."

Bond issue at heart of effort to bolster financial system



By Bethan Hutton in Tokyo

Japan has agonised so publicly and extensively over how to stabilise its financial system that there was little scope for surprise in yesterday's package.

The proposals were couched in vague terms, allowing plenty of flexibility in drawing up and implementing actual legislation, to apply from next April.

The core measures revolve around the Deposit Insurance Corporation (DIC), the banking industry deposit guarantee fund supported by premiums from banks and credit associations.

Its resources have come under pressure with the closure of several small regional banks and credit unions, followed by more recent high-profile collapses of Hokkaido Takushoku Bank and Tokuyo City Bank.

Premiums were raised last year, but no longer seem enough given the precarious state of a number of financial institutions.

The proposals include:

■ Government to guarantee loans made to the DIC in order to repay deposits at collapsed institutions.

■ A "financial crisis management account" to be created within the DIC, to be used when the stability of the financial system is threatened by capital weakness or cashflow problems at an institution, by buying preferred shares or subordinated bonds issued by it. It is also to help provide extra capital for institutions that take over businesses from failed banks, or for banks important to particular sectors or regions.

■ Government to issue bonds worth Y10,000bn; bonds to be given to the DIC for its financial crisis account. The DIC could ask the government to cash bonds when necessary, or use them as collateral for other borrowing. It is not yet clear what maturity the bonds would have, or how they would be repaid.

■ DIC possibly to be given the right to issue government-guaranteed bonds directly.

■ Review of DIC premiums to be brought forward.

■ Deposit insurance system possibly to be extended to cover a wider range of financial products, and compensation system for insurance policy holders and customers of securities companies to be improved.

■ Disposal of bad loans to be speeded up, and role of the Resolution and Collection Bank – currently covering credit unions – to be broadened to include banks.

■ Bank of Japan to continue to provide abundant liquidity to banks.

■ Powers of the Securities and Exchange Surveillance Commission to be strengthened to prevent market distortion through baseless rumours.

■ Better disclosure at financial institutions to be promoted and government inspections tightened.

Historic meeting of Asian leaders has served to demonstrate the region's reliance on the west

Economic clouds darkened summit skies

It was supposed to symbolise Asia's ascent from colonial humiliations towards greater self-determination. In the event, the first summit of 12 east Asian leaders, which ended in Kuala Lumpur yesterday, served to highlight the region's profound reliance on the west. It was not quite the defining moment the summiteers expected.

Hopes that Japan and China would help relieve south-east Asia's misery were short-lived. Japan, seen as a possible locomotive for the region's stalling economies, declined to do so. It has problems of its own.

Ryutaro Hashimoto adjusts his headphones at the summit: 'The Japanese economy is not in good shape' Reuters

"The [south-east Asian] countries have been developing their economies citing the formation of cranes in flight, with Japan at the top of the formation," said a spokesman for Ryutaro Hashimoto, the Japanese prime minister. "However, the Japanese economy is not in good shape," he added.

Specifically, Mr Hashimoto told his counterparts from the nine member nations of the Association of South-East Asian Nations (Asean) that Japan would not be able to boost imports from the region because of its own domestic problems.

The measures Tokyo did outline were welcome, but trifling in comparison with the problems faced by several Asean countries. Japan said it would extend US$18bn in trade insurance to ventures with Japanese connections in Asean. The interest rates on some of its yen soft loans to the region would be cut by 0.5 per cent.

China reiterated that it would not devalue its currency. This was welcomed by Asian countries who feared their new export competitiveness, following large currency depreciations, would be eroded by a yuan devaluation. China also promised to refrain from subsidising its exports.

But these measures were insufficient. Asean members called upon the US, the European Union, Japan and international financial institutions to intensify efforts to overcome the crisis.

In a rebuff to Mahathir Mohamad, the Malaysian prime minister, and others orchestrating criticism of the International Monetary Fund, an Asean communique praised the IMF for having "corrected and improved" regional economies. Thailand, Indonesia and South Korea have all signed up to IMF restructuring packages, while Malaysia has pledged to resist its help for as long as possible.

Not only was help found wanting from Asean's north-east Asian partners, but a sense of east Asian unity was also shown to be fragile.

Japan voiced concerns that a plan by Asean – which groups Malaysia, Thailand, Indonesia, Singapore, Vietnam, Brunei, Laos, Burma and the Philippines – to accelerate tariff cuts within the group could result in protectionism. China also warned against exclusivity and discrimination.

Despite the sense of anti-climax, there was no disguising the historical significance of this first summit of east Asian leaders without US participation. The leaders did not set a date for their next meeting, but left no doubt that more summits were planned.

As for debating and co-ordinating policy, the summit showed that there was an urgent need for this.

One of the most immediate imperatives for such co-ordination is the Asia Europe meeting (ASEM) in London next April. This will involve Asean, China, Japan and South Korea, with European Union members.

Both sides have now accepted that Burma will not participate in ASEM, a triumph for EU insistence that it would not tolerate the involvement of a regime with a controversial human rights record.

■ Kofi Annan, United Nations secretary general, said yesterday that he would send a special envoy to Burma in January to meet members of its military government and Aung San Suu Kyi, the leader of the opposition.

James Kynge

South Korea in drive to win over IMF

By Gerard Baker in Washington and John Burton in Seoul

Robert Rubin

South Korea yesterday announced several financial reforms in a last-minute effort to convince the International Monetary Fund to approve a new tranche of funds this week as Seoul seeks to avoid possible loan defaults.

The US welcomed the latest moves by Korea to comply with the IMF programme and called on Seoul to continue to fulfil its commitments. "They have begun a process that is difficult. They have taken a number of measures that are encouraging," said Robert Rubin, the US Treasury secretary.

He said the firm progress made in implementing the programme had been distorted in the last week by the repeated pleas from Seoul for more assistance from the international community.

Analysts said yesterday's measures were meant to persuade the IMF to release a second tranche of $3.5bn on Thursday under the terms of its loan agreement. Seoul hopes the IMF will offer to accelerate disbursement of additional funds to reduce the risk of Korea defaulting on short-term foreign debt due by month's end.

The US had no intention of offering a bridging loan to the Korean government to help meet its obligations over the next few days, Mr Rubin said. He would not oppose other countries if they wanted to provide such support. "If for some reason someone wanted to inject a bridging loan, we would see no objection," he said.

The new proposals by Seoul followed its sudden decision to float the Korean currency, the won, from yesterday in compliance with IMF demands under its $57bn package. The won climbed by nearly 9 per cent to 1,424 to the dollar, while the Seoul bourse rose by 4.8 per cent to 404.26.

The new measures include raising a 25 per cent ceiling on interest rates to 40 per cent, cutting the state budget, easing rules on mergers and acquisitions, relaxing restrictions on share issues by financial institutions, and implementing guidelines on foreign takeovers of banks during the first half of 1998.

The IMF will meet tomorrow to consider Seoul's progress and decide whether to make the second tranche of money available following an initial disbursement of $5.5bn last week.

Korea has got off to a rocky start in meeting IMF demands, including its refusal to close two near-insolvent banks that were taken over by the state instead last week.

As an alternative to closure, Seoul this week offered to sell one of the two troubled banks, Korea First and SeoulBank to foreign investors. But few foreign bidders are expected because of the banks' large amounts of non-performing loans.

Seoul proposed issuing a $10bn sovereign bond issue to domestic and overseas investors to raise foreign exchange to help cover its short-term debt obligations of $110bn over the next year.

Nonetheless, there were continued signs of reluctance to implement other IMF terms, including clear corporate accounts. The securities supervisory board yesterday proposed that companies should be allowed to classify foreign-exchange losses as deferred liabilities, which would be phased out over several years.

Korean companies are estimated to have incurred up to Won20,000bn ($11.6bn) in foreign exchange losses this year as the won lost nearly half of its value.

The government had previously allowed companies to avoid reporting foreign-exchange losses on profit and loss statements by allowing them to be taken off the capital base instead.

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CONTRACTS & TENDERS

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New Zealand warns of fall in growth

By Terry Hall in Wellington

New Zealand's Reserve Bank promised a significant easing in monetary conditions yesterday after warning in its six-monthly report of a sharp downturn in economic growth over the next three years, mainly because of the Asian economic crisis.

But local interest rates immediately jumped as the New Zealand dollar fell on worries of a sharp widening of the country's balance of payments deficit.

Short-term interest rates rose 44 basis points to 8.6 per cent and the 10-year bond jumped 21 basis points to 7.13 per cent as financial markets responded to what seems to be the most cautious statement since Don Brash became governor in 1991.

The Reserve Bank forecast the current account deficit would rise to 7.7 per cent of gross domestic product in the year to next March from 4.7 per cent last year.

Although this partly reflects an unusually large outlay on defence, the New Zealand dollar fell 1.36 US cents to US$0.580. This is well below its peak of almost 70 cents against the US currency earlier this year.

Sentiment on the foreign exchange markets was further undermined by trade statistics which showed a deficit of NZ$528m (US$315m) in October, compared with NZ$309m in September.

The deteriorating position was due to falling exports to Japan and Korea.

Jenny Shipley, the prime minister, said last night that New Zealanders should not be too rattled by events in Asia. The economy was in a recovery mode, she said.

The Reserve Bank's Monetary Policy Index stood last night at 568, nearly 60 points below the target of 625 the financial markets are supposed to meet through adjustments in interest and exchange rates.

Mr Brash said the New Zealand dollar, which has fallen about 16 per cent in recent months, was acting to push up domestic prices.

Against this, lower domestic growth and projected weakness in some export and import prices due to the sharp downturn in activity in parts of Asia were working to constrain inflation.

Mr Brash said the most obvious risk to forecasts was that problems in Asia might turn out to be more serious than assumed. "As each day passes, reports suggest that the Asian situation is worse than envisaged just a few days before, so it is still possible we have under-estimated the situation."

There was little doubt that a significant part of New Zealand's total trade would be affected. "This means that monetary conditions may need to be easier than now projected to keep inflation in the middle of the nil to 3 per cent target range."

Last September the bank forecast the current account deficit would peak at about 5.8 per cent of GDP in the year to March 1998, trending down to 4.1 per cent in 2000.

The bank yesterday forecast the deficit would average around 7.7 per cent in the year to March next year before falling. However it would still be around 6.4 per cent in the period up to March 2000.

Pakistan 'success fee' admitted

By William Hall in Zurich and Jimmy Burns in London

Société Générale de Surveillance (SGS), the world's biggest inspection and testing company, has admitted that it paid a substantial commission to a Geneva lawyer to enable it to start up a pre-shipment inspection programme for the government of Pakistan.

The admission came ahead of today's meeting of OECD ministers in Paris which is expected to sign a new convention making it a criminal offence to pay bribes to foreign officials in order to secure contracts.

Elisabeth Salina Amorini, SGS's chairman, said the company's problems in Pakistan might lead SGS in future to avoid "certain markets where our ethical principles do not enable us to compete on an even basis".

SGS is used by governments of developing countries to prevent capital flight and customs duty evasion.

Mrs Amorini told an extraordinary meeting in Geneva yesterday that the developments in Pakistan had been "very serious" for a group whose reputation was based on providing "an independent and reliable verification" of clients' business transactions.

SGS won the Pakistan contract in May 1992.

Jean Pierre Meau, SGS senior vice-president, told the Financial Times that his company had paid a "success fee" to Jens Schlegelmilch, a Geneva-based lawyer, for "assistance" in negotiating a pre-shipment inspection services contract with Pakistan. Mr Schlegelmilch yesterday refused to comment.

Fed holds back from interest rate rise

By Nancy Dunne in Washington

The US Federal Reserve yesterday kept short-term interest rates unchanged after the release of two new economic reports which added to the picture of a strong US economy with inflation still under control.

However, there remained two persistent worries: the potential fallout of the Asian economic crisis and the rising levels of consumer debt.

Analysts are divided over the medium-term course of interest rates, with some predicting the Fed will raise rates to contain inflation, while others urge lower rates to prevent deflation.

The Labour Department's consumer price index (CPI) advanced at a rate of 2.2 per cent in November, the slowest rate of growth in 32 years.

Overall, consumer prices rose 0.1 per cent November, a rate of 1.8 per cent for the last 12 months and the slowest advance since January 1986.

In November, the price of goods excluding food and beverages dropped by 0.3 per cent.

Prices for services rose by 2.9 per cent.

Clothing prices edged up 0.3 per cent, a 1 per cent year-on-year increase. Transportation prices were lower than expected during November.

Car prices fell slightly, gasoline prices declined by more than 2 per cent and air fares were down by 3.9 per cent.

"Given the lack of inflationary pressures, we expect the Fed to remain on hold in the near term and to eventually ease monetary policy," said Merrill Lynch.

Meanwhile, the construction industry is advancing at its strongest pace in nine months, according to the Commerce Department. Housing starts jumped by 0.8 per cent to a seasonally adjusted annual rate of 1.53m in November, matching the gain in October.

James O'Sullivan of J.P. Morgan said the strong housing starts added to the evidence of a very strong growth in the fourth quarter.

A report by the Consumer Federation of America showed consumer spending was being supported by high levels of credit card debt.

Between 1990 and the end of 1996, aggregate credit card debt more than doubled. Between January and September this year the total debt rose more than 14 per cent to an estimated $452bn.

In another report, the American Banking Association said it had reined in consumer debt delinquencies and that the number of late credit card accounts had been falling.

New laws cutting benefits for those who refuse to work are dividing US experts

Poor find welfare pill hard to swallow

Last year Tatashia Holley, a 24-year-old lone mother of three, became a small part of American history. She had her benefits cut off in Pensacola, Florida, for refusing to co-operate with America's welfare-to-work programme.

Since then she has been joined by at least 170 other lone parents who, in one small corner of Florida, have reached the end of their two-year time limit on welfare: an early indication of an experience which will soon hit many thousands of welfare mothers.

Ms Holley made history early because Pensacola – along with parts of some other states – received waivers to experiment with welfare ahead of the bill which President Bill Clinton signed last year. This required most welfare recipients to work after two years and set a five-year lifetime limit on welfare. The proponents believe these rule changes will force people into work, the critics that they will lead to destitution. Ms Holley's case may or may not convince either side.

A high school graduate with a lowly qualification as a nursing assistant, her attitude to having to work for her benefit was uncompromising. "They just wanted people to go to McDonald's," she told the New York Times back in July. "I got too much pride for that. I didn't go to school for that stinking pay cheque." As a result, in June last year she was cut off, losing her cash benefits but retaining $400 a month in food stamps, subsidised housing, and an income of around $40 a week baby-sitting for her sister's children.

That income disappeared when her sister was made jobless.She moved in with her brother, who is on disability benefits and does not work.

When he in turn moved, she ended up for almost a year with three children aged between 10 months and three years in a run-down, mouse-infested house with a collapsed porch, holes in the walls, no electricity and broken water pipes. "It was rough," she says. "For a time it was very cold and there was no heat."

Her mother took the older children off her, and then this summer her aunt took Ms Holley in. She got a summer job for a time as a hotel maid – a success for the programme, its proponents might say. But that ended in September. Now she hopes a telephone operator's job may be in the offing. "I'm surviving," she says, "but it's a struggle."

After months apart, Ms Holley has just been reunited with all three of her children, and now lives in a four-bedroom house with her aunt. The aunt has five children of her own and a husband unable to work since he suffered a stroke.

US welfare reform

benefits in Iowa

All families

No job 47%

Some job 53%

of whom:

Part-time (less than 30 hours per week)	43%
Full time (30 hours plus)	57%
Covered for health insurance	36%
Mean weekly earnings	$170

Source: Mathematica Policy Research Inc

The family says they do not even get food stamps. The 50-year-old aunt, the only one with a job, says: "We are just barely making it." She says that the new system "really stinks. It is not helping anybody. They are just pushing people out. They are not interested in helping anybody any more."

How typical Ms Holley's experience has been is not yet clear. The only detailed research on time limits yet published is a study of lone mothers cut off in Iowa for six months, starting in late 1994. Here, the termination of cash benefits had the desired effect on about half the sample: they went out and got a job, boosting their monthly income on average by almost $500.

The other half, however, saw their meagre income drop $384 a month. An independent study by Mathematica published last May found that "even for the latter group, there is little systematic evidence of extreme economic distress, such as homelessness and the separation of children from their parents".

It points out, however, that under the rules Iowa then had in force, people could reapply for help after six months. Coping strategies, chiefly reliance on "family, friends and neighbours", which worked for six months, may well not work if the cut-off is longer or permanent, the study says. There was also evidence that the high levels of private assistance were "unlikely to persist indefinitely". Longer periods might well produce "greater evidence of families in crisis".

In Florida, the department of children and families says that, as in Iowa, the tough approach worked for some when the time limits expired last February. They went out and got jobs. Others, it admits, fared less well. Just how well will be revealed in a six-month follow-up study commissioned from the Manpower Development Research Corporation, and due next month.

However, Dan Bloom, author of the still confidential research, warns that even with a permanent cut-off as opposed to Iowa's temporary one, what has happened after six months may not reveal what will happen later. "In addition, the bottom line will not be what happens on average, but what happens to the subgroups. Does the average hide some people who do very much worse?"

According to the National Coalition for the Homeless, the first evidence is already emerging from Los Angeles and Atlanta that welfare reform is leading to more families hitting the shelters. This is not, as yet, because of time limits, but because they have been cut off for refusing to comply, do not understand the new system, or have filled forms in wrong.

The US conference of mayors says hunger and homelessness are both rising, despite a highly buoyant economy – and that the time limits of welfare reform are likely to worsen that. The coming months will slowly reveal whether Ms Holley is an exception or the rule.

Nicholas Timmins

NEWS DIGEST

Jagan ahead in Guyana poll

Janet Jagan, the 77-year-old widow of a former president, appeared set yesterday to become the president of Guyana in spite of last minute opposition attacks on her for being born in the US.

Mrs Jagan's incumbent People's Progressive party took an early lead in the preliminary returns from Monday's general election, ahead of the main opposition People's National Congress of Desmond Hoyte, a former president.If the PPP's victory is confirmed, Mrs Jagan would become the first elected female president of a South American country.

She would take over an economy which has been expanding rapidly over the past six years, following a decade of contraction. She is expected to continue the free market policies started by Mr Hoyte's administration before it lost the 1992 election, and which the PPP adopted when it took office. *Canute James, Georgetown*

■ CHILE

New senators announced

The balance of power in Chile's future Congress swung in the government's favour and closer to an equilibrium with the opposition on Monday, when the Supreme Court named three of the nine new "designated" senators

But the government will still have to negotiate legislation issue-by-issue, while the constitutional reforms the government wants – to abolish the institution of the non-elected senators and bring the armed forces under democratic control – will be out of the question, as they require a two-thirds majority.

Last week the government kept its majority in the House of Representatives, with 70 of 120 seats. In the Senate, it has 20 seats, a majority of two. In addition, however, there are nine designated senators. Of the Supreme Court's three nominations on Monday, one – Enrique Silva Cimma, foreign minister in the previous democratic administration – is a secure vote for the government. The other two are both from the less reactionary wing of the Supreme Court.

In addition, President Eduardo Frei will name two more "designated" senators. But these plus Mr Cimma will give the government three secure votes, on top of the 20 elected members. The armed forces plus the police name four senators. *Imogen Mark, Santiago*

■ US PRODUCTIVITY

Graduate engineers spur lead

The large US productivity lead in manufacturing over Germany and the UK is due to high skills of an elite band of graduate engineers that feeds off the large resources in the US directed to technical education, according to a study to be published this week.

The report by the UK's National Institute of Economic and Social Research says the high skills of the engineers in the upper hierarchies of US manufacturing are responsible for much of the flexibility of US plants, rather than workers doing the more menial jobs who are on average less skilled than their European equivalents. The report says 18.4 per cent of the manufacturing workforce in the US in 1993 had skills categorised as "higher levels", equivalent to a graduate degree, compared with 9.6 per cent in the UK and 7.4 per cent in Germany. *Peter Marsh*

NEWS: UK

Nation's position on euro may affect stance on factory investments

US companies issue Emu warning

By Peter Marsh in London

US manufacturers with big UK factories have warned that they might rethink their investment strategies if Britain remains outside European economic and monetary union indefinitely.

The comments from senior executives at four big US industrial companies amount to one of the stiffest warnings yet from international investors of the potential consequences from the UK continuing its reluctance to commit to a European single currency.

Between them the four companies employ about 10,000 people in Britain in more than 30 plants.

Assuming Emu goes ahead with Britain permanently on the sidelines, their view is that their investments in Europe would tend to favour other countries signed up for integration. This is because the absence of currency risks would make the trading of parts and finished goods easier.

Jean-Pierre Rosso, chairman of Case, one of the world's big four tractor manufacturers, said that if the UK extended its "wait and see" policy on Emu beyond the early years of next century "this would be negative from an investment point of view".

James Perrella "would raise Emu membership question"

Mr Rosso, whose company has large tractor and construction machinery plants in northern England, said: "The temptation would be to favour the Euro zone in investment because of the uncertainties surrounding the [relationship between the] pound and the Euro."

Bill Hudson, chairman of AMP, the world's biggest producer of electric connectors, said the rapid rise of sterling against other major currencies had contributed to a decision earlier this year to close some operations at AMP's three main UK plants, switching jobs to eastern Europe. He said the pound staying permanently outside a single currency would involve "risks" to AMP increasing its UK investments.

Peter Hellman, president and chief operating officer of TRW, the defence and car parts company which employs 3,000 people in the UK, said: "Our preference would be for the UK to join. It's one of the factors we would consider when deciding on new investments."

James Perrella, chairman of the Ingersoll-Rand engineering company, said: "It [membership of Emu] would be a question I would raise [in investment decisions]." He added that staying out could have a "detrimental effect" on UK investment decisions.

However, other US industrialists said that over the next few years whether or not Britain stayed out of Emu would be unlikely to make any difference to investment plans. This was on the grounds that other factors, such as worker productivity and skill levels, would be more important in deciding on which countries were best for new plant locations and extensions.

Jim Henderson, chairman of Cummins, the big diesel engine maker, which has two large plants in the UK employing more than 2,000, said the company did not have big European investments on the horizon. The Emu issue would therefore not affect investment thinking for the immediate future. But Cummins "would like the UK to go in" because it would simplify the company's European trading and planning.

US heads inward investment league

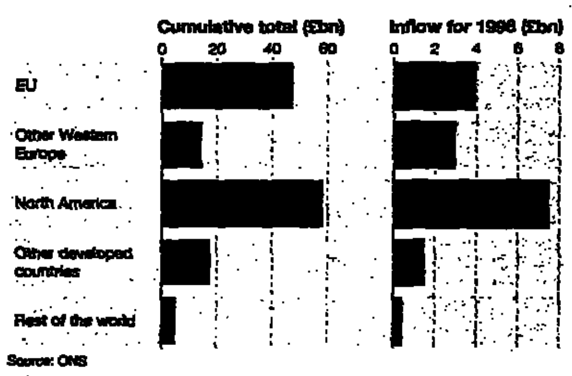
By Richard Adams, Economics Staff

Direct investment in the UK by companies from other countries rose by £3.4bn ($5.6bn) last year to more than £16bn, the highest amount since 1990, according to the latest UK government figures.

US companies continue to be the largest net direct investors in the UK economy, adding just less than £7bn last year. The Netherlands is the next highest, with £2.7bn, and it provides the bulk of the European Union's total of £3.9bn.

Direct investment involves developing a lasting interest in an enterprise above that of most other investors. The UK government's Office for National Statistics says the direct investor's purpose is "to have an effective voice in the management of the enterprise" of at least 20 per cent ownership.

Where inward investment comes from



Source: ONS

Analysts warn that the outlook for further direct investment in the UK is less attractive because of the rise in the value of sterling and the financial turmoil in Asia.

The UK's decision to remain outside European economic and monetary union at its outset in January 1999 may also alter foreign investment patterns.

Earnings from the results of direct investment in the UK from other countries rose by £2.2bn to £14.4bn in total last year, the highest recorded annual figure.

The ONS said the biggest increase in investment came from developed countries outside Europe or North America. Australian companies accounted for investment of just over £1bn, while investment from Japan was £390m. The two countries made net disinvestments of around the same amount in 1995.

Direct investment by UK companies in other countries fell by 20 per cent last year. The Netherlands and France overtook the US as the most favoured locations for UK investment in 1996, although the US still has the highest cumulative level of investment.

UK companies invested a net £22bn overseas, a decrease of £5.6bn from 1995's record total. UK investment in the US and Canada fell from £12.1bn in 1995 to £1.9bn in 1996. The level of UK investments overseas rose from £196.7bn to £209.1bn, while earnings from those investments rose by £3.4bn to £27.3bn, a record figure.

The Netherlands attracted the most investment from the UK, and accounted for 29 per cent of the total. But the ONS noted some overseas investment in the UK was channelled through Dutch holding companies, so "the underlying flow on investments from this country is overstated and the inflow from originating countries is understated."

The next largest recipient of UK investment was France, with 10 per cent, followed by the US with 9 per cent.

Brussels gives benefit of the doubt

Tony Blair told parliament this week that his disagreements, mainly with France, over access to the Euro-X committee for countries outside the first wave of monetary union were part of normal diplomacy. The prime minister, who has promised a more positive approach to Europe, said the affair did not signal a new continental cooling.

However, only days later, Britain took the unilateral action of banning imports of beef from the European Union in retaliation for its delay in imposing the same hygiene standards.

The consensus in Brussels – where bilateral arguments on a range of policies are by no means confined to the British – is to give Mr Blair the benefit of the doubt.

EU diplomats point to enough movement by the British in other areas to caution against comparisons with the previous Conservative administration.

Yet there are aspects of British behaviour that, according to some in the Commission and in other member states, augur ill for the presidency. Mr Blair's speech on flexible labour markets to socialist leaders in Malmo, soon after taking office in May, came across to some non-converts as unnecessarily didactic.

"The UK is in danger of throwing the leadership word around too much during its presidency," said an EU diplomat. "We don't think Europe needs a leader. Every country uses the word when it takes over the presidency but we seem to be hearing it all the time from Blair and [Robin] Cook. We are not impressed. This is not a US presidency."

Other prickly egos have been bruised in recent weeks. London-based senior diplomats were offended by their treatment at the launch of the UK presidency two weeks ago at Waterloo station in London. "Not all of us wanted to be extras in a Labour film," said one.

Officials in Brussels are keen to point out that it is not just the British who have gone out on a limb. The Germans took a particularly tough view over Turkey's future admission to the club; they also took the lead in seeking to oppose a ban on tobacco sponsorship, and – apart from Greece – have the worst record on implementing single market measures. France was recently reprimanded by the European Court of Justice for failing to ensure the free movement of goods such as Spanish strawberries and Belgian tomatoes. The Commission first complained about the French in 1985.

At the Commission, the word is that the UK is easier to deal with. "We now have ministers who can talk without having to refer back all the time to London because they do not come from a cabinet which is split top to bottom on Europe," said an official.

While Mr Blair is said to have good relations with Chancellor Helmut Kohl and with Romano Prodi of Italy, there is little attempt to hide problems with Lionel Jospin of France.

John Kampfner
Michael Smith

UK NEWS DIGEST

Meat substitute is export winner

British beef may still be off the European menu but Quorn, a low-fat meat substitute made from a fungus discovered in an English field, is helping to fill the export gap.

Marlow Foods, owned by Zeneca, the pharmaceuticals company, yesterday won this year's £10,000 ($16,500) export innovation award from Food from Britain, the export marketing agency, for doubling export sales of Quorn in the past three years to nearly £9m.

Dutch, Swiss, Belgians and Irish have developed a taste for Quorn – and Germany is one of the next target markets. Marlow Foods has capitalised on the trend for "healthier eating" and lower meat consumption, said Nick Hughes, managing director.

But it has not been easy to build exports during the crisis over "mad cow disease". "All the food scares in recent years have been bad for all British food companies," he said. "On the continent they say: this is food from Britain and you have a lot of problems over there."

Quorn is derived from *fusarium graminearum*, a tiny mushroom-like plant discovered in a field in the early 1960s. *Alison Maitland, London*

■ WOOD PRODUCTS

$66m boost for Scottish venture

CSC Forest Products, a Canadian-German manufacturer of wood products, is investing £40m ($66m) in extending its fibreboard plant in Cowie, central Scotland, the company said yesterday.

The investment will increase output at the factory, which employs 500 people, by half. CSC is a joint venture between Noranda Forest of Canada and Glunz, a German-owned natural resources company. *Peter Marsh, London*

■ BROADCASTING REGULATION

Multi-channel digital TV 'at risk'

Regulation that is too complex and prescriptive is in danger of stifling a successful launch of multi-channel digital television in the UK, according to Nigel Walmsley, broadcasting director of Carlton Communications.

Mr Walmsley, who heads British Digital Broadcasting, the 15-channel digital terrestrial service due to be launched next October, said UK and European regulators could hamper digital television ventures through over-regulation. BDB, which aims to rival British Satellite Broadcasting's forthcoming 200-channel digital service, is awaiting a licence from the Independent Television Commission because the European Commission is examining it on competition grounds. *John Gapper, London*

■ NATIONAL SPORTS ACADEMY

City chosen over ex-US airbase

The UK's new national sports academy will be based in the northern England city of Sheffield, after the government yesterday chose its bid ahead of those from nearby Nottingham and from Upper Heyford in the Midlands. Upper Heyford is the site of a former big US Air Force base. The UK Sports Institute was the brainchild of John Major, the former prime minister, who conceived it in 1995 after a run of defeats for British sports teams. Chris Smith, chief sports minister, said yesterday the institute would "give our top athletes the boost they need to beat the world". Mr Major's idea was inspired by the Australian academy of sport, which helped produce a world-beating cricket team. His plan gained impetus after the UK performed dismally at the 1996 Olympic Games. Labour increased the proposed funding for the academy from £100m ($165m) to £160m after taking office.

Sheffield won the bidding largely because it already has an athletics stadium and other sports facilities worth £170m, a residue of the 1991 World Student Games which the city hosted at an unexpectedly large loss of £10.4m. Community use of some of these facilities will be restricted when the elite national sporting academy starts. *Simon Kuper, London; Sheila Jones, Manchester*

■ PUBLIC SECTOR BORROWING

Government forecast on target

The public sector borrowing requirement remains broadly on target to meet the government's forecasts, according to latest official figures. The PSBR excluding privatisation receipts was £2.3bn in November and £6.6bn in the first eight months of 1997-98, the Office for National Statistics says. The cumulative PSBR compares with £17.9bn in the same period in 1996-97.

Privatisation receipts were negligible during November. The eight-month cumulative PSBR including privatisation receipts was £4.8bn, compared with £13.9bn previously. Gordon Brown, the chancellor of the exchequer, forecast in his pre-Budget report last month a PSBR of £9.5bn, excluding the receipts of the windfall tax on privatised utilities, announced in the July Budget.

The November PSBR of £2.6bn was made up of a deficit of £3.5bn of central government's own borrowing requirement, a surplus of some £500m by a number of local authorities and a surplus of about £700m by public corporations. *Wolfgang Münchau, London*

Minister ends block on two rail takeovers

By Charles Batchelor, Transport Correspondent

Margaret Beckett, the chief industry minister, yesterday dropped her opposition to the acquisition of the privatised ScotRail and Central Trains rail franchises by National Express, the diversified transport group, following a seven-month investigation by the Monopolies and Mergers Commission.

National Express will be required to sell its Scottish coach business, Citylink. But the MMC rulings were identical to the advice given by John Bridgeman, director-general of fair trading, to Mrs Beckett in May. His conditions were rejected by her then as inadequate.

Yesterday's decision prompted criticism from some City of London analysts of unnecessary delay. "There is a big cost involved in these reviews," said one. "It is worrying that civil servants can sit on these things for so long."

Recent merger investigations, involving both the UK and European authorities, which have taken a long time include the P&O-Stena Line ferry merger, given a conditional go-ahead last month after a 12-month review, and the British Airways-American Airlines link-up, still waiting approval after 18 months.

Mrs Beckett said she had accepted the MMC recommendation that National Express be allowed to retain ScotRail provided it sold its Citylink coach company. She also agreed that no action needed to be taken on the company's acquisition of a second franchise, Central Trains. ScotRail runs trains throughout Scotland while Central Trains provides services in the English Midlands and Wales.

Colin Child, National Express finance director, said: "We are disappointed with this result which means that our passengers will not enjoy the benefits of integrated services. But we will co-operate with the MMC."

The Scottish rail users' consultative committee also criticised the decision for preventing the closer integration of transport.

National Express has been given six months to sell off Citylink, which contributed operating profits of about £1m ($1.65m) on turnover of £12m last year. Analysts expect the group to make a pre-tax profit of just over £80m on turnover of £1.25bn this year.

Ofwat, the water industry regulator, is poised to allow a private entrepreneur to supply the customer of an existing privatised water monopoly, Leyla Boulton writes.

On Friday, it expects to unveil plans to allow a company set up by Jeremy Bryan to supply water to Shotton Paper, a paper manufacturer now served by Welsh Water.

The proposal could mark a big step forward for large water customers by giving Mr Bryan a chance to demonstrate whether competition can lower prices and improve service in a sector considered a natural monopoly. In two years, Mr Bryan has lodged 25 applications to service the customers of existing water companies.

Lex, Page 26

Regulator slates 'serious breaches' by life house

By Christopher Brown-Humes in London

Prudential, the UK's biggest life insurer, was publicly reprimanded for the second time in two months yesterday when it was castigated by its regulator for failing to manage its direct sales force adequately.

In one of the toughest statements ever issued by a regulator, the Financial Services Authority accused the group of "a deep-seated and long standing failure in management" which prevented it from "recognising its own shortcomings." The authority is the new integrated regulator for the City of London.

The authority also said the group had a "cultural disposition against compliance" and had failed to put right defects identified in a previous report. The result was "continuing persistent and serious breaches . . . across major areas of its business".

The criticism follows an inspection visit to Prudential Assurance, the Prudential's UK domestic arm, at the start of this year.

The failings led the company to re-test its sales force of 5,000 during the summer while Sir Peter Davis, Prudential group chief executive, took direct charge of Prudential Assurance in September. The latest reprimand is a severe embarrassment to the company because it comes only two months after it was criticised by the Securities and Investments Board for slowness in clearing up its pensions mis-selling cases. The company has 70,000 such cases – more than any other provider – and has made a £450m ($742.5m) provision to cover compensation.

One accusation previously levelled by the regulator against the company is that it advised some non tax-paying clients to buy one of its products, the Prudential Savings Account, when other products would have been more suitable.

Sir Peter said: "We very much regret the situation and we totally accept the report of the FSA." But he added that the company was implementing a wide-ranging restructuring of its management and operating procedures. He stressed that compliance had now been separated from selling.

Judges boost powers of securities watchdog

By John Mason, Law Courts Correspondent

Two rulings by the Court of Appeal in London yesterday strengthened the power of securities regulators to act against unauthorised investment schemes but operating in the UK but based elsewhere and to ask for interim payments to reimburse investors who lose out.

The SIB, the former main regulator for the City of London, is now being absorbed into the new Financial Services Authority.

Three judges backed a High Court ruling against Jeremy Bartholomew-White, the former managing director of Scandex Capital Management, a collapsed currency company which traded from Denmark. The court said he had no defence when he claimed he believed he was covered by Danish law to operate in the UK.

The judges also reversed another ruling made in March that prevented the SIB applying for Mr Bartholomew-White to make an interim payment to creditors. The rulings were welcomed by officials of the regulatory body.

The ruling on non-UK companies operating in the UK was seen as an important clarification of the SIB's powers. The ruling on interim payments will enable the SIB to apply for interim payments to be made to creditors – a means of reimbursing losers far quicker than if payments have to wait until the end of legal processes. The SIB began legal action against Scandex in October, days after the Danish financial regulator, Finanstilsynet, rejected the company's application for a licence and ordered it to close.

Mr Bartholomew-White had claimed that, because he believed he was covered by Danish law, he had not breached the UK Financial Services Act, the main regulatory legislation for the SIB. The Court of Appeal rejected his appeal.

Mr Justice Carnwath, the judge in the original High Court hearing, said that, if he had had the power, he would have ordered Mr Bartholomew-White to make an interim payment of £470,642 ($776,550). The SIB must now formally ask the judge to order the payment.

Cool redesign for hot chips

Microprocessor performance has been doubling every 18 to 24 months, an achievement often described as Moore's law, named after Intel co-founder Gordon Moore. But as chip designers pack ever increasing numbers of transistors on to chips, they face big problems in working out how to dissipate the heat generated by the computational process.

Mainframe and minicomputers overcome this problem by using large refrigeration units, while desktop and notebook PCs use a simple fan. But if chip designers are to keep on the Moore's law path, they will soon have to try a new approach.

A new chip design method may come to the rescue. Known as reverse computing, this approach re-uses some of the electricity used by a microprocessor. It will lead to powerful microprocessors that can also be used in battery-powered devices such as handheld computers, cellular phones and portable computers, and extend their operational times.

"We are reaching the physical limits of how much heat can be dissipated by a fast microprocessor without requiring expensive cooling systems," says Michael Frank, a leading researcher in reverse computing projects at the US Massachusetts Institute of Technology.

Mr Frank and his fellow researchers have shown that Moore's Law will grind to a halt unless the heat dissipation problem can be solved and that the class of technologies involved in reverse computing offers the best solution.

In reverse computing, instead of erasing the information stored by a microprocessor after every cycle of the computational process, and generating heat, some of that information is retained for the next cycle. Theoretical models show it may be possible to build powerful microprocessors that use as little as one-hundredth of the power of current microprocessors.

This year a group of researchers at the Information Sciences Institute at the University of California said they had developed the first microprocessor that makes use of some reverse computing technologies.

"We have produced the AC-1, a working CMOS microprocessor, that uses elements of reverse logic and uses one half the power of a similar conventional microprocessor, and we are working to reduce power consumption to just 10 per cent," says William Athas, the leading researcher on the project at ISI. "We've discovered that a little reversibility goes a long way in terms of cutting power consumption. The techniques we are developing will be very important to the chip industry."

ISI is licensing its reverse computing technologies to other companies, and Dr Athas says chip giant Intel has expressed a keen interest in their work.

Reverse computing chips, however, will require different ways of designing chips and new ways of programming applications. MIT researchers are working on developing new programming techniques and are developing a chip called the Pendulum.

These types of chip design techniques may lead to development of 3-D chip structures in which cube-like microprocessors could be built with supercomputer levels of performance.

Tom Foremski

Internet monitoring tools

All work and no play for web users

Want to take a sneaky break to surf the net or send e-mail? Think again, Big Brother may be watching

Employees thinking of whiling away their working days on the internet checking football sites, downloading games or e-mailing relatives in Australia had better watch out – their bosses may be watching.

A raft of new software, some of it based on technology developed to protect children from sexually explicit material on the world wide web, is available to businesses seeking to monitor and limit use of the internet by employees.

At least 30 programs are available, offering employers the tools to reduce time lost when employees access web sites that deal with sex, sports and entertainment. Titles such as SmartFilter, On Guard, CyberPatrol, WebFilter, NetCop and SurfWatch can search for key words such as "sex" and block, or monitor access to, sites containing related material.

From harried salesmen in an open office wanting a break to senior managers locked away in their executive suites, extracurricular surfing has become a popular indulgence. In one celebrated case last year, a computer company in Texas fired 20 workers for surfing sexually explicit sites. Each had more than 1,000 "hits" to his name.

Demand for filtering software is increasing because a growing number of companies worldwide have access to the internet – and are fearful of abuse by employees. According to one US estimate this year, 75 per cent of male employees with access to the internet sometimes visit sex sites while at work.

And since the US Supreme Court ruled in June that the Communications Decency Act was unconstitutional, software titles using filtering technology have been entering the market at an average rate of one a week. The act would have severely restricted the distribution of "indecent" material on the internet.

"The defeat of the CDA initiative was really a catalyst for our sales," says US-based On Technology, whose On Guard Internet Manager is typical of the titles available.

Until recently the only way for companies to prevent time-wasting, or the downloading of illegal material from the internet, had been to use "firewall" software or hardware to restrict what staff could do with their internet access. Now several approaches are possible.

The main aim of firewalls is to protect against hackers, but they can also limit users to certain sites, allow them to send e-mail only to specific places and prevent then from downloading large documents, programs or images.

Producers of firewalls – including Cyberguard, Sidewinder, Borderware and Secure Computing – have responded to the growing demand for these services by including block, filter and look facilities into their products' existing protective mechanisms.

Secure Computing's SmartFilter software, for example, is claimed to be the "ultimate control tool" for a corporate internet connection. Its reporting and analysis tools measure and manage internet use. The software logs all attempts to access web sites, successful and denied, including the date and time of the attempt and the response received. It can be linked to the Secure Computing firewall, which will only allow traffic from categories on SmartFilter's control list.

On Guard can also work in conjunction with firewalls. As well as showing the network manager in real time where employees log on, it monitors whether or not they download material, and allows the blocking of any number of sites.

However, although they are effective, firewalls can be over-restrictive for users if applied too broadly, or time-consuming for administrators to maintain if only the services known to be inappropriate are blocked out.

A different approach is taken by products such as Sessionwall-3, developed by US-based Abirnet. "It lets everything through, then highlights potential abuses which can then be denied. And it works in real time," says Chris Durnan, managing director of Peopod Internet, one of two companies that distribute Sessionwall in the UK.

The software allows the user to follow which web sites are being looked at, read the contents of e-mails and see what files are being downloaded. And all of this can be pinpointed to individual users on the corporate network.

Other approaches include "proxy servers", which make internet connection more efficient by downloading a site once and distributing it over a Local Area Network. That enables control of what is available to a common set of users. Server-based tools include Sequel Technology's Net Access Manager 2.0, which logs web and intranet access, including attempts to access restricted resources. It also informs on which users exceed bandwidth quotas.

Not to be outdone, Netscape entered the fray with a new server (Compass Server 3.0) that alerts users when it discovers web pages containing selected keywords or concepts. Microsoft's Proxy Server and the Internet Policy Manager 2.0 from Aventail, a blocking server, offer other solutions.

The popularity of the filtering software is bound to raise questions about Big Brother-style snooping by employers on staff.

Dave Oatway, network manager of the United Bristol NHS Trust and a Sessionwall-3 user, says he would refuse to let a manager access the software to gather intelligence on employees and says it is important that staff know the software is in use.

Phil Ryan, security products manager at E92 Plus, which also distributes Sessionwall-3 in the UK, adds: "Sessionwall performs functions which hackers and nosey technical people can easily achieve by other means. And it is accepted practice in many companies to open all incoming post and to log outgoing telephone calls."

A broader concern is the extent to which the internet is losing its reputation as the ultimate in free information. In the US there are fears among civil liberties groups that filtering software, and a trend among providers to restrict material being posted, represents the CDA via a back door.

Reporting by Arthur Egon Graff, Fitzroy Nation and Daryl Willcox

Information Technology

● The FT's review of Information Technology appears on the first Wednesday of each month

Fast route to setting up a web business

Encanto Networks makes a bold claim for e.go Commerce, the electronic shop in a box it launched this month. The company – founded by Bob Frankenberg, former chief executive of Novell – says a business can establish a web site for taking orders and receiving payment within 30 minutes.

From the outside, e.go is a sleeker version of the stand-alone towers that contain the storage devices and processors of a high-end personal computer.

The stylish device, which will sell in the US for $1,295, sits in the user's office, connected to the internet by an ordinary telephone line. The hardware will be sold through Staples, the US office equipment seller, and is packaged as a machine such as a fax would be.

Already installed on what Encanto calls the "webstation" is a pick of the software that administers a web store: applications from Verifone and Cybercash to handle credit card payments, most importantly, but also software such as Coda from RandomNoise to design the interface that users will first see. The package includes internet access from $49.95 a month.

Many businesses moving on to the internet have chosen to subcontract the management of their sites to web hosting services. These are, in theory, professionally managed and provide a permanent connection to the internet. But hosting costs $200 or so a month. Encanto's e.go will appeal to business users who want to avoid that expense – as well as to those that like their electronic store to have a physical manifestation, sitting quietly in the corner, coining revenue.

Encanto Networks, US: web, www.encanto.com, tel 4084921212

Tool for finely crafted web pages

Macromedia, best known for its software "plug-ins" for animating web pages, garnered praise at the show for its new web page layout tool. Designers using Dreamweaver can take advantage of features such as dynamic HTML, the new standard for enlivening web pages.

But the feature that has attracted the most attention is Roundtrip HTML. This allows designers to switch between views: from one in which the web page is displayed as it will appear to visitors to the site, to a window in which the HTML code that underlies the page is shown in raw form, allowing more precise control over the structure of the page.

Macromedia, US: web, www.macromedia.com; tel 4152522000

Watching brief

Nick Denton reviews the latest in new products at Fall Internet World 97 in New York

Air miles collected electronically

Another company has unveiled software that helps companies to promote their products online through the electronic equivalent of coupons and air miles.

E-centives, from Emaginet, consists of two parts: a free Organizer, which sits on the user's PC and manages electronic incentives distributed by retailers; and server software costing $10,000 a year which allows participating businesses to mint coupons and target offers at particular consumers.

Electronic incentives, like their physical equivalents, are designed to build customer loyalty and to allow retailers to aim discounts at those consumers most likely to respond. With electronic coupons expected to play an important role in internet commerce, a number of companies are attacking the market.

Emaginet, US: web, www.emaginet.com; tel 3015646700

End of a personal details chore

Tired of dictating your name and address for the umpteenth time to a customer service representative over the telephone? PipeLive offers salvation, of a sort. The software harnesses real-time messaging, familiar to participants in internet chat rooms, to speed up a company's dealings with customer queries.

The software that the customer sees prompts the user to input contact information, and assigns a user name and password. It displays advertising banners and messages that run in a ticker tape across the screen. The customer service agent, using a more powerful element of the application, can initiate a chat session with any customer online.

What are the advantages? Agents can save time by firing off prepared responses to frequently asked questions, and give customers a transcript of the exchange. And they can send files to a customer's computer or direct it to a particular web site, a boon for computer companies' support operations.

Interworks Systems, US: web, www.iworksys.com; tel 516 424 9757

Ready for take-off: E-centives collects air miles electronically

Web-based 'telephone' system

Another internet appliance, this time not a set-top box but one that bears more resemblance to a telephone: InfoGear, a technology developer, and Cidco, a maker of caller ID equipment, say they will next month launch the web-based telephone they have been promising.

iPhone, which is expected to retail for $500, has advanced telephony features such as conference calling and caller ID. But its touch-screen can also display information from the world wide web such as the yellow pages, news and entertainment listings. A pull-out keyboard allows users to send e-mail nearly as easily as they would make a call.

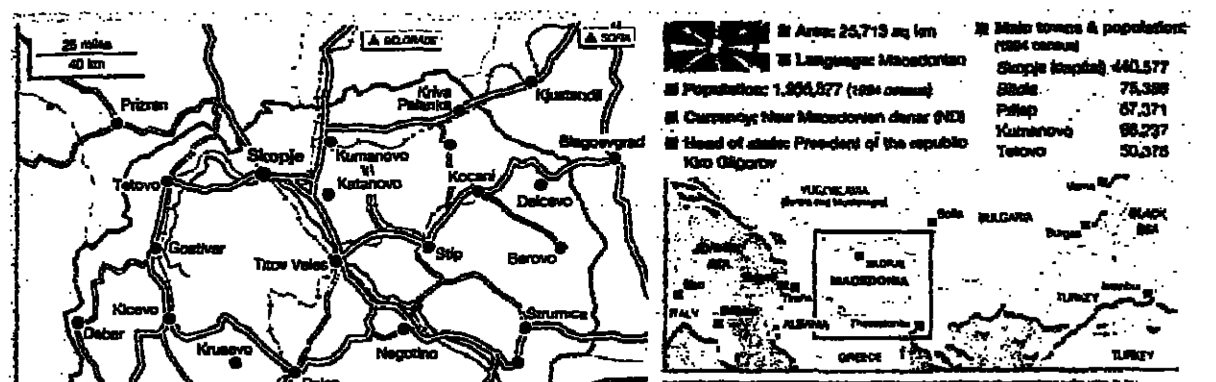
iPhone does not enable telephone calls over the internet, but another device, the Aplio/Phone from the FrancoUS company Aplio, plugs into a telephone like an answering machine to allow users to set up free long-distance calls over the network.

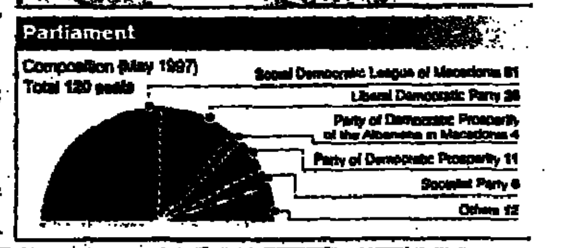
InfoGear, US: web, www.infogear.com; tel 6505682900

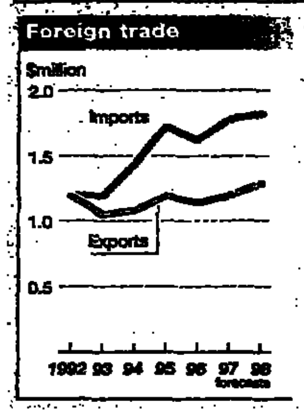
REPUBLIC OF Macedonia

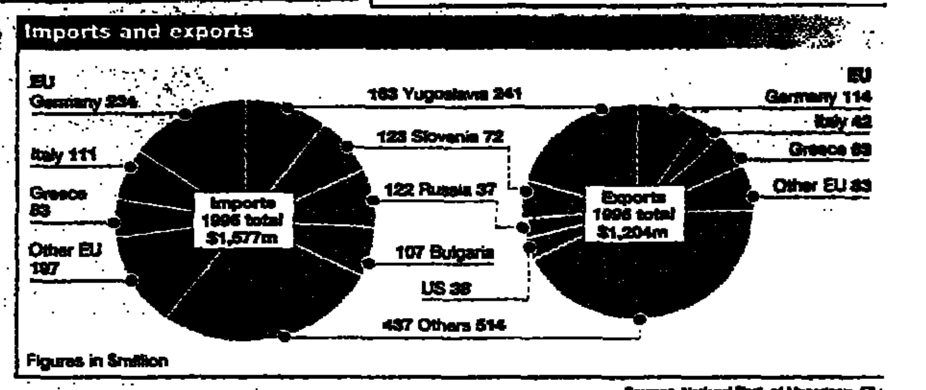
Although relations with neighbouring nations are improving, the threat of domestic unrest remains a problem. **Kevin Done** and **Kerin Hope** report

Brighter prospect for buffer state









Sources: National Bank of Macedonia; EIU

Macedonia is struggling to shake off the legacy of its troubled early years of independence and to catch up with the pace of reform and restructuring set by other countries in eastern Europe.

Its geographical position, as the small but strategically vital buffer state at the heart of the southern Balkans, has forced it to follow a different agenda from that pursued by other countries in the region, jostling at the front of the queue to join the European Union and Nato.

Membership of both organisations remains Macedonia's long-term strategic goal. However, in its early years of statehood since emerging from the collapse of Yugoslavia in late 1991 the country has faced a battle to survive. Its future has been overshadowed by the war in Bosnia, with the possibility of the conflict spreading throughout the region, and by the aggressive bilateral actions of its larger neighbours, in particular Greece.

However, in the past two years Macedonia's prospects have brightened. The Greek trade embargo, imposed by Athens in an ill-starred attempt to try to force Macedonia to change its name, was removed, and United Nations trade sanctions against Yugoslavia (Serbia and Montenegro), Macedonia's biggest single trading partner, were lifted.

The dispute with Greece over Macedonia's name – as a result of Greek lobbying the country is still known as The Former Yugoslav Republic of Macedonia (Fyrom) at the UN and in the EU – remains unsolved. But the issue has faded into the background amid increasing investment by Greek companies and a recovery in tourism, which brought more than 400,000 Macedonians to Greece on holiday last summer. Renewed problems in obtaining Greek visas are a reminder, however, of the underlying tensions between the two nations.

Kiro Gligorov: uncertainties are as great as ever

The end of the war in Bosnia and the first signs of economic recovery in the southern Balkans have improved Macedonia's chances of developing better ties with neighbouring states. It is now preparing to upgrade road links with all its neighbours and to participate in cross-border highway and energy projects to link the region with central and western Europe.

Trade with Bulgaria is picking up and a cross-border gas pipeline to supply Macedonia with Russian natural gas is complete. However, relations are still clouded by Sofia's refusal to recognise the Macedonian language as something more than a Bulgarian dialect – a dispute that has held up the signing of more than 20 bilateral agreements.

Macedonia's western and northern borders with Albania and Serbia are still patrolled by UN peace-keeping forces, but the UN security council has recently decided that the mandate for the Unpredep (United Nations preventive deployment) forces should not be renewed when their present term ends in August next year. This is evidence that the country's security position is gradually improving and that tensions with its neighbours are easing.

While the UN decision provides tangible proof of the international community's belief that the political risk posed by Macedonia is being reduced, it has received a mixed welcome in the country itself. Certainly it is a setback for the 80-year-old president Kiro Gligorov, who argues that Unpredep has "not finished its mission yet" and that many of the uncertainties facing Macedonia are as great as ever.

He says that all the issues of Bosnia-Hercegovina are still open with a continued presence of foreign troops deemed necessary to prevent a resumption of hostilities, and that tensions are rising in neighbouring Kosovo with increased violence between Serbian police and armed Albanians.

Fourteen months after starting talks with Belgrade, Macedonia has still been unable to reach agreement on demarcating several sensitive stretches of its northern border with Serbia, areas which are monitored by troops from the US battalion of Unpredep.

Some western diplomats in Skopje, however, are more troubled by the threat of domestic unrest in Macedonia and inter-ethnic tension between the Slav and Albanian communities than by external problems.

Last July's bloody clashes in Gostivar between radical Albanians and the Macedonian police, the worst ethnic violence so far, have highlighted the issue of minority rights for the large ethnic Albanian community. The growth of a radical Albanian faction, represented by the Democratic Party of Albanians (DPA), has posed a direct challenge to the government's policy of a gradual integration of Albanians into Macedonian society.

The government's excessively harsh response to the DPA's flaunting of the Albanian flag in Gostivar, together with its refusal to make concessions over the self-proclaimed Albanian university in Tetovo, has highlighted a yawning gap between Macedonia's attitude to minority rights and its aspirations to EU membership.

There will be fertile ground for those seeking to exacerbate domestic tensions during the coming year as Macedonia prepares for a general election next autumn in the wake of local elections a year ago, which appeared to confirm growing support for more radical factions in both main ethnic communities.

The conduct of the campaign will be a heavy responsibility for Macedonia's young post-communist politicians, who are at last emerging from the shadow of President Gligorov. The parliamentary elections will be held one year before Mr Gligorov departs the political stage at the end of his second five-year term, and already Branko Crvenkovski, the 35-year-old prime minister, is assuming a more important role.

Mr Crvenkovski's governing Social Democrats will campaign next year on their record of stabilising the economy and winning gradual acceptance of Macedonia's existence as an independent state from its sceptical and sometimes hostile neighbours.

The ex-communist Social Democrats have enjoyed an easy ride in their current term because the nationalist Internal Macedonian Revolutionary Organisation (VMRO), the main opposition party, and the right-wing Democratic Party were not represented in parliament after boycotting the second round of the 1994 election.

The lack of a strong opposition undoubtedly helped the government weather a potentially disastrous financial scandal with the collapse last February of the Tat savings house, amid widespread accusations of corruption and involvement by government officials. This vacuum has also allowed Mr Crvenkovski to slow down the pace of transition as the election nears, replacing the energetic market reformers in his cabinet with former high-ranking members of the communist hierarchy.

The prime minister, however, faces a tough task to persuade voters that a new mandate for the Social Democrats will bring the greater economic prosperity that has proved so elusive during the past three years since the last election.

In close partnership with the International Monetary Fund the government has achieved singular success in stabilising the economy. It has brought inflation down to industrial country levels, budget deficits have been modest and external debt levels are low compared with many countries in the region.

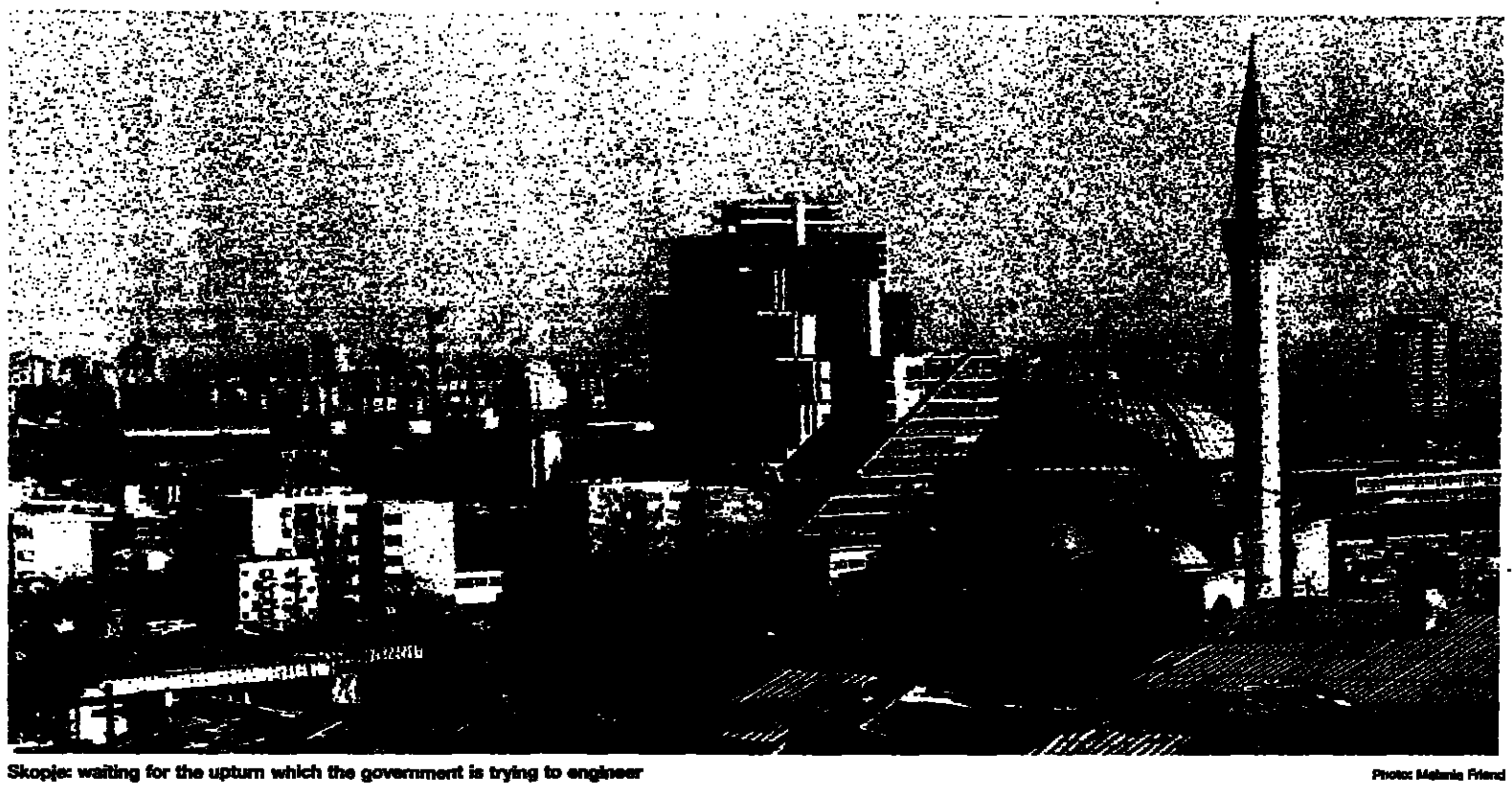
The government's record in promoting economic growth has been disappointing and Macedonia's unemployment rate of around 30 per cent is one of the highest in eastern Europe. It has faced a growing crisis in the current account of the balance of payments and was forced to take corrective action with a 16 per cent devaluation of the denar against the D-Mark in the summer, even at the risk of higher inflation.

The biggest economic problems are at the enterprise level. According to a recent report by Merrill Lynch, the US investment bank, "even after a substantial fall in output between 1990 and 1996 there remain many enterprises which are uncompetitive and which appear to fund their losses through a mixture of inter-enterprise arrears, tax arrears, wage arrears and non-performing loans to the banking sector".

Restructuring has been delayed by a protracted privatisation process, which has been dominated by management and employee buy-outs resulting in insiders controlling most companies.

Foreign investment has been largely excluded from this first stage of privatisation, but with the process of establishing ownership almost complete, there are signs that foreign direct investment is picking up.

The government is also beginning to open up the utilities sector to privatisation. Mr Crvenkovski is hoping that next year's planned sale of a stake in the telecommunications operator to a foreign strategic investor could finally put Macedonia on the map and provide a stimulus for foreign investors.



Skopje: waiting for the upturn which the government is trying to engineer Picture: Melanie Friend

ECONOMY • by Kevin Done

Virtue still unrewarded

The government is prepared to risk a rise in inflation to kick-start the economy

Macedonia's virtuous pursuit of macroeconomic stability under the watchful eye of the International Monetary Fund has yet to be rewarded with any significant recovery in economic activity.

The rate of inflation may be one of the lowest of any of the transition countries in east Europe but unemployment – officially estimated at more than 30 per cent – is one of the highest. Economic reforms, in particular the restructuring of enterprises and the development of an effective banking system and functioning capital markets, still lag behind many other countries in the region.

Macedonia has privatised a large part of the enterprise sector in the past two years with more than 1,000 of the original 1,200 companies now in private hands. The main method of privatisation, however, has been management and employee buy-outs with the result that many companies are still controlled by the original managers. There has been little or no restructuring.

Tight monetary and fiscal policies have pulled the country back from the brink of hyperinflation in the early 1990s but they have failed since to produce the growth needed to offset the heavy fall in output suffered since independence.

The anchor of monetary policy has been what amounts to a fixed exchange rate against the D-Mark. However, the worsening of an already weak current account of the balance of payments with a growing deficit in foreign trade, forced the government to change course in the summer. It devalued the currency by 16 per cent from 27 to 31 denars against the D-mark in July.

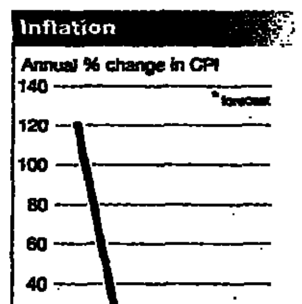
With IMF backing it has accepted the risk of an increase in inflation as the price of trying to kick-start the economy. It has tried to limit the inflationary impact of the devaluation with measures including a public sector wage freeze but, with an eye on the coming election, it is also pursuing steps to create jobs.

It has found room in next year's budget for a measure aimed at cutting the level of labour costs for newly created jobs. Various social costs including pension, health and employment contributions amount to an extra levy on employers, equivalent to 78 per cent of the net wage. The government has decided to eliminate all such extra costs on newly-created jobs from January for two years.

The measure could cost the budget around DM60m next year, but Mr Fiti is hoping it will create about 50,000 jobs, reduce unemployment benefit costs and bring some of the large grey economy into official channels.

Western financial officials estimate that the grey economy is at least equivalent to 20-30 per cent of gross domestic product, and could be as much as 40 per cent. Mr Fiti expects workers to press employers to register them because companies will face no extra labour costs for two years.

"This step is urgently needed because unemployment is the big problem," says Mr Fiti. "We hope this will stimulate investment too in the private sector, and that if businesses flourish, then workers will not be laid off again after two years."



The budget deficit is supposed to remain at the modest level of 1.5 per cent of GDP next year, similar to 1997 despite the autumn election.

After stagnating in the first half of this year there are signs that activity is beginning to pick up - the budget forecasts that 1998 will be the year when significant expansion begins.

GDP is forecast to rise by 5 per cent next year, compared with around 2 per cent in 1997 and 1.1 per cent in 1996. Year-on-year inflation is expected to be held to around 5 per cent by the end of this year and is forecast at a similar level for the end of 1998.

Industrial production, which was flat in the first half is slowly expanding and has been growing by 5-6 per cent during the second half of 1997.

It will be a long route back, however. According to the World Bank, official statistics show that real GDP fell nearly 30 per cent between 1990 and 1995, that the volume of trade flows dropped about 40 per cent and the volume of investment in 1995 was less than half its 1990 level.

Macedonia's performance has undoubtedly been undermined by its uncomfortable location. It has taken a long time for its fortunes to recover from the blows suffered in the mid-1990s from the Greek trade embargo and UN trade sanctions against Yugoslavia. Its traditional trade routes to north and south were severed and the alternative east-west links through Bulgaria and Albania were, and still remain, severely hampered by poor infrastructure.

Both Serbia and Greece have resumed their position, along with Germany, as Macedonia's most important trading partners, but the country is still struggling to win back its share of former markets. It is clearly hampered by the continuing isolation and political turmoil in Serbia.

The perceived high level of political risk has deterred any significant foreign investment - foreign direct investment since 1989 on a per capita basis has been the lowest of any of the countries in east Europe (excluding the Soviet Union) - and foreign investors have played little role in the privatisation process.

Ms Verica Hadzi Vasileva-Markovska, director of the privatisation agency, says that in 90 per cent of privatisation cases only one bid was received, and this was usually from insiders in the form of employees and managers.

This first phase of privatisation to establish the owners of enterprises is largely completed and must be entirely finished by the end of next year. But the internal battle for control inside some companies continues. The move to the vital next stage, in which companies begin to restructure, to seek new markets and capital for investment is only in its infancy.

The Macedonian stock market officially opened in March last year but activity on the official listed segments of the bourse is virtually non-existent. It is illiquid and where trading takes place highly volatile. Even on the so-called third market or over-the-counter market there are still virtually no bids in response to shares offered.

According to the stock exchange the only part of the capital market that is booming is the "wild market" for shares that takes place only inside already privatised companies among employees and managers without any regulation or protection of investors.

POLITICS • by Kerin Hope

Facing a tough election test

Macedonia's prime minister is having to perform a delicate balancing act

Branko Crvenkovski, the Macedonian prime minister, is only 35. But after five and a half years in office, he is already one of the longest-serving leaders in a region where political survival means treading a fine line between patronage politics and the enforcement of market reforms.

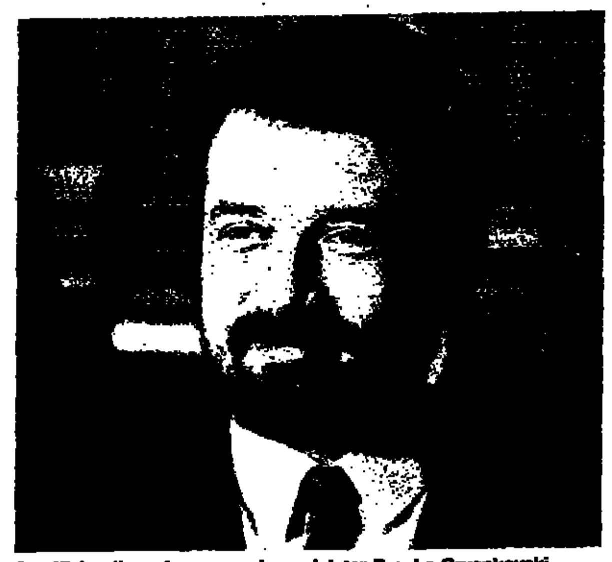
With parliamentary elections due by next October at the latest, Mr Crvenkovski's balancing act will become still more delicate.

The coalition government led by Mr Crvenkovski's ex-communist Social Democrat League this year succeeded in weathering a financial scandal. Several senior officials were implicated and thousands of small investors lost their savings, following the collapse of the TAT savings house in the southern town of Bitola.

The government has also survived the most serious ethnic clashes in Macedonia to date, between riot police and radical members of the Albanian minority last July in the western Macedonian town of Gostivar.

But the prime minister has sacrificed the Social Democrats' two most prominent modernisers: Jane Miljovski, the deputy prime minister, and Ljubomir Frckoski, the foreign minister. Both men were sacked last April in a cabinet reshuffle triggered by the TAT scandal.

Mr Crvenkovski earned plaudits for his firm handling of the scandal, in which the central bank governor was forced to resign and his deputy was placed under arrest on charges of abusing his authority. But his critics claim that after three years of stringent economic policies, Mr Crvenkovski is postponing important structural reforms, such as the restitution of property to pre-communist owners. They also say he has started to make concessions to the old communist nomenklatura, several of whom now occupy senior cabinet posts.



Sacrificing the reformers: prime minister Branko Crvenkovski

The prime minister brushes aside such charges, saying the government badly needed an overhaul. "Individualism became a problem. The government looked increasingly less like a team working together. I needed fresh people, not theorists, but people who could implement projects."

A computer engineer who started his political career in the communist youth movement, the pragmatic Mr Crvenkovski had a meteoric rise to power after Macedonia broke away in 1991 from the collapsing Yugoslav federation.

After taking over the leadership of the Social Democrat League at a point when the fiercely nationalist Internal Macedonian Revolutionary Organisation (VMRO) held most seats in parliament, Mr Crvenkovski might have expected to spend several years with the ex-communists in a political wilderness.

Within 18 months, however, he was prime minister of a coalition government which included prominent personalities from the pro-market Liberal party as well as the moderate Albanian Party for Democratic Prosperity, which has steadfastly continued to back Mr Crvenkovski even after last summer's riots in Gostivar.

Mr Crvenkovski has grown increasingly confident since emerging from the tutelage of President Kiro Gligorov, the 80-year-old elder statesman who steered Macedonia to independence and kept it out of the wars of the Yugoslav succession.

Decision-making passed to the prime minister after Mr Gligorov was seriously injured in an assassination attempt in 1996. Although the president resumed his duties after making a strong recovery, he has been more concerned with representing Macedonia abroad and winning backing from all the political parties for Macedonia's bid for eventual membership of Nato and the EU.

Until the coalition with the Liberals broke up last year, the Social Democrats also benefited from the absence of a parliamentary opposition, as VMRO and the right-wing Democrats pulled out of the second round of voting at the 1994 elections, claiming widespread electoral fraud.

Next year's election is likely to be a much tougher test for Mr Crvenkovski, although his government will have the advantage of designing a new electoral law that will introduce proportional representation, with the Social Democrats' strengths and weaknesses in mind.

Mr Crvenkovski is already looking further ahead. He argues that easing tight policies that have reduced Macedonia's inflation rate to one of the lowest among transition economies would be risky ahead of the election. "We must also consider developments in the following five years. We might also have elections to win in 2002."

MINORITIES • by Kerin Hope

Image shattered by clashes

The violence in Gostivar was a potent expression of Albanian discontent

Macedonia's claim to being an island of tolerance in a region of simmering ethnic tensions has been shattered by last July's violent clashes in Gostivar between riot police and radical members of the country's large Albanian minority.

The clashes, which left three dead and more than 200 injured, marked the worst ethnic violence in Macedonia's short history as an independent state. Gostivar, a prosperous town in western Macedonia where Albanians form an overwhelming majority, quickly returned to calm.

But the bloodshed, triggered by a political dispute over the radical mayor's insistence on flying the Albanian flag alongside Macedonia's outside the town hall, has underscored the increasing fragility of relationships between ethnic Slavs and Albanians.

The question of minority rights for the Albanians – who officially make up 23 per cent of the population but claim to account for at least 35 per cent – has moved steadily up the political agenda.

Even after the Gostivar riots, the governing ex-communist Social Democrats have managed to retain the support of the moderate Albanian Party for Democratic Prosperity (PDP). The two parties have co-operated in government since 1992, with the Albanians holding five cabinet posts in return for their support of a step-by-step policy to end discrimination against the minority.

"We don't want to create American-style reservations for Albanians in Macedonia. We would like to live in a multi-ethnic environment," says Dzemail Hajdari, the Albanian minister without portfolio. Under pressure from the PDP the government set up a parliamentary commission to investigate the Gostivar riots.

"What happened in Gostivar left a very big mark on relationships betweem the communities. It could destroy the very weak bridges established in the past six years. The police intervention was very harsh, not suited to a democratic country's police force."

Two new factors have raised the stakes in inter-ethnic relations. One is the emergence of a radical Albanian political grouping, the Democratic Party of Albanians. It appears determined to challenge the government on crucial issues such as higher education for Albanians and broader use of the Albanian language.

The other is a dawning realisation by Slavs that the Albanians' exclusion under communism from jobs in state-owned factories and the civil service has enabled them to acquire skills giving them a strong competitive edge in Macedonia's developing market economy.

Albanians in western Macedonia have set up businesses, backed by remittances estimated at several hundred million dollars yearly, from the large migrant Albanian communities in Germany and Switzerland.

Shops filled with imported goods and a surge in private construction in Gostivar and Tetovo, the biggest Albanian population centres in Macedonia, testify to the Albanians' entrepreneurial talents.

The DPA tries to allay Slav fears that the minority in western Macedonia may join up with Albania itself in a step towards creating a Greater Albania. Rufi Osmani, the 36-year-old mayor of Gostivar, stresses that the DPA does not question the territorial integrity of Macedonia but adds that "everything else is open," including the vexed question of eventual autonomy for the Albanian minority.

Mr Osmani, awaiting an appeal against a 13 years eight months prison sentence on charges of inciting rebellion last July, says the relationship between Albanians and Slavs is "something worse than colonial".

"Discrimination is implemented in every area of life, not just in education or the economy but in social affairs and in the public administration. Albanian citizens have trouble getting even basic administrative documents from the police."

The mayor and his supporters on Gostivar's town council took a confrontational stand by defying a ruling in May by Macedonia's constitutional court that other countries' flags should not be flown in public.

Armed police moved in to pull down the Albanian flag early on July 9 immediately after the Macedonian parliament approved a new law permitting the flags of Macedonia's ethnic minorities to fly outside municipal buildings only on public holidays.

A videotape submitted as evidence by the DPA to the investigation includes footage from both Macedonian and Albanian television stations of demonstrations later that day. It shows police firing automatic weapons and includes shots of police kicking and beating demonstrators with truncheons and breaking into Albanian homes. Some Albanians have claimed that police looted their homes.

Both moderates and radical Albanians agree that since Macedonia became independent they have lost rights they held as citizens of the former Yugoslavia. In the 1980s Albanian was an official language in the Macedonian parliament, secondary education through the medium of Albanian flourished and Albanians from Macedonia could study at Pristina University in Kosovo, the Serbian province with an overwhelmingly Albanian population.

Education has become a deeply divisive issue despite efforts to increase the number of Albanian students at Skopje University. The Macedonian government refuses to recognise the self-proclaimed Albanian University of Tetovo set up almost four years ago by the local community, with support from the Kosovo Albanians.

The university, attended by 4,000 students, occupies private houses in a suburb of Tetovo and is financed by contributions from ethnic Albanians in Macedonia and the Albanian diaspora.

President Kiro Gligorov defends the government's position on the grounds that permitting higher education exclusively in Albanian would "bring a kind of ghettoisation".

He maintains Macedonia respects all the international norms governing minority rights.

International observers describe attitudes between Macedonians and Slavs as "unforgiving" but say that the mood in Gostivar has become less confrontational over the past few months.

For their part, Mr Osmani's supporters claim they are now focusing less on political issues and more on the town's economic problems. This is welcomed by members of Gostivar's growing business community, many of whom have returned home since the collapse of communism.

The outcome of Mr Osmani's appeal, which may be heard in January and the findings of the parliamentary commission investigation, due this month, will provide the next severe tests for Macedonia's fragile inter-ethnic relations.

UNITED NATIONS • by Kevin Done

Farewell the blue helmets

Troop withdrawal will be a blow to a government still concerned about security

Reluctantly Macedonia is having to contemplate a future without the reassuring presence of United Nations' peacekeeping forces patrolling its sensitive northern and western borders with Serbia and Albania.

The UN Security Council passed a new resolution this month to extend the mandate of Unpredep, the UN's preventive deployment force in Macedonia, by nine months until the end of August next year. But it declared also that this should be the final period and that the troops, provided by four Nordic countries and the US, should be withdrawn "immediately thereafter."

The decision is a blow to the Macedonian government and in particular to President Kiro Gligorov. He campaigned to bring the UN peacekeepers to his fragile, newly independent country in 1992, as former Yugoslavia collapsed into the slaughter of three-and-a-half years of war in Bosnia.

Macedonia was the only part of the former Yugoslavia to achieve its independence (in 1991), followed by the withdrawal of the Yugoslav army the next year without a shot being fired. It was, however, ill-equipped to defend its newly-won sovereignty in the midst of the volatile southern Balkans.

The Security Council justified its new resolution on the grounds that there had been "a number of positive developments in the overall situation in the area" and cited, in particular, reduced tensions in Albania.

The resolution accepts, however, that peace and stability in Macedonia continue to depend "largely on developments in other parts of the region." It is here that Macedonia's assessment of the risks parts company with that of the UN.

"In light of the situation in the region Unpredep has not finished its mission yet," insisted Mr Gligorov in an interview shortly before the Security Council announced its resolution. "All reports to the UN say that this is very positive preventive diplomacy. It does not take a lot of resources and it has been very effective in preventing the war spilling over to the south."

President Gligorov argues that many of the uncertainties facing Macedonia are as great as ever.

All the issues of Bosnia-Hercegovina are still open and the continued presence of foreign troops is deemed necessary to prevent hostilities resuming, he says. Tensions are rising in neighbouring Kosovo, with increased incidents of violence between Serbian police and armed Albanians in the southern Serbian province where the 90-per-cent ethnic Albanian population lives under heavy repression from Belgrade.

In addition simmering disputes continue between Greece and Turkey, while in Albania Mr Gligorov maintains that the authorities are "still far from having control over the whole country".

And 14 months after starting talks with Belgrade, Macedonia has still not reached agreement on the demarcation of several sensitive stretches of its northern border with Serbia, areas which are monitored by troops from the US battalion of Unpredep.

According to Macedonia's 80-year-old president the situation in Serbia is "very complex and is even worse than before." He describes Vojislav Seselj, the ultra nationalist and a leading candidate for the vacant Serb presidency, as a "threat to the Balkans" because he has declared that he would not recognise the US-mediated Dayton peace accord.

President Gligorov admits "Unpredep cannot remain for ever" but points to the 25-year presence of UN peacekeepers on Cyprus.

Unpredep was the first mission in the history of UN peacekeeping to have a preventive mandate but it is impossible to judge for this reason what would have happened if the deployment had never taken place.

A UN observation post at Debar on the Albanian border *Kevin Done*

Macedonia's greater certainty and confidence as an independent state may owe much to the UN military presence. Nevertheless despite Macedonian objections, the international community, led by the US, has clearly decided that Unpredep has served its purpose and the time has come to plan future security arrangements without the blue-helmeted peacekeepers.

Pressures within the Security Council – in particular from Russia – led a year ago to a decision to reduce the number of troops by 300, from the previous strength of 1,050 (two mechanised infantry battalions, each 500-strong and drawn from the US and four Nordic countries and a 50-man support engineering platoon from Indonesia. In addition there are 35 military observers and 26 civilian police monitors).

The troop reduction was delayed by the chaos in Albania but finally implemented in November, as the start of a so-called "phased exit" strategy.

The Security Council has called on Kofi Annan, the UN secretary-general, to report by June next year on how the Unpredep forces can be completely withdrawn immediately after the end of August and on the type of international presence that would be most appropriate.

In his last report in November Mr Annan told the council any strategy should ensure that "proper successor arrangements" are in place to reassure the Macedonian government of the international community's "continued commitment to peace and stability".

Western diplomats in Skopje say some form of international presence will be needed on the frontier with Serbia for as long as the border is not properly demarcated. "Without it the chance of patrols from either side meeting and firing is higher," says one diplomatic observer.

There must also be a commitment "over many years" to the modernisation and training of Macedonia's own armed forces – a role that cannot be played by Unpredep troops – says a leading diplomat. The US and the Nordic countries could do this, possibly under the auspices of Nato or as part of an enhanced Partnership for Peace. The idea of Macedonia being used for Nato training exercises to involve it more closely in western "security structures" is also being considered.

An exit strategy must be developed that does not leave a security vacuum, says a western diplomat. "We don't want the neighbours to re-open the Macedonia question. We must not say: 'We have not had a fire, so let's get rid of the fire station'."

INFRASTRUCTURE • by Kerin Hope

Building a solid base

Macedonia is concentrating on reconstructing its power and transport sectors

Starved of grants from the federal budget during Yugoslavia's final years, Macedonia, when it began life as an independent state six years ago, had virtually no funds to improve its out-dated infrastructure.

Two of the country's first loans from the European Bank for Reconstruction and Development were granted to cover emergency repairs in the power and transport sectors.

Macedonia borrowed DM38.4m from the EBRD to build a new power transmission line from the main electricity generating complex at Bitola in western Macedonia to prevent black-outs in Skopje, the capital. Another DM17.8m loan covered equipment urgently needed to improve safety at Skopje airport.

Economic growth is slowly resuming, and Macedonia is planning a series of infrastructure projects over the next decade. The projects will be financed either through funds from international agencies or through private financing on a build-operate-transfer basis.

The projects include the upgrading of roads, and the construction of two hydro-electric power stations and a distribution network to supply industries and households in Skopje with Russian natural gas.

Macedonia sits at a crossroads in the southern Balkans, and the government puts a high priority on upgrading roads to international highway standards. The focus is on both the west-east road link with Albania and Bulgaria and the north-south road from Serbia to Greece.

Tenders are being sought from local and regional contractors to carry out construction work and to operate the highways through toll concessions, for a fixed number of years.

The first project is to upgrade a 35km road between Skopje and Tetovo in western Macedonia on the route to the Albanian border. Traffic density on this road is the highest in the country, with more than 8,000 vehicles travelling in both directions daily. Widening the road to a dual carriageway is expected to cost about $70m and to take one year to complete.

"Every contractor here wants to be in on the Tetovo project because it is a very congested road with a big volume of trucks as well as passenger vehicles. The other projects may take longer to get off the ground," says Aleksander Petkov, overseas director of Granit Construction, a Macedonian contractor that has been involved in the upgrading of roads in Bulgaria.

Greek contractors are keen to upgrade a 75km stretch of the road linking Skopje with the Greek border. More than 8,000 vehicles daily travelled the road before the break-up of Yugoslavia; now fewer than 3,000 vehicles use the highway.

The $195m project would link to the EU-financed Egnatia highway across northern Greece to the border with Turkey, and would therefore likely be eligible for EU grants.

In the energy sector, a 82.5MW hydro unit is being built on the Treska river. The scheme's aim is to reduce Macedonia's dependence on lignite-fired power plants, which supply more than 75 per cent of electricity requirements. The government has decided to buy Chinese equipment for the plant, which is due to come into operation in 2001.

"Hydro-power is more expensive but we have to start diversifying. The lignite reserves may run out

> A high priority is being given to upgrading roads to international standards

within a generation," says Mihaljo Trpkovski, assistant general manager at ESM, the state-owned power company. "In the meantime we would increase the share of hydro in energy output from 22 per cent to over 30 per cent."

The first BOT project in the energy sector would be a 250MW hydro-electric plant to be built on the Crven river. The cost is estimated at $300m. But construction is not likely to start before 2000, Mr Trpkovski says.

Russian natural gas has reached Macedonia with the completion of a pipeline from the Bulgarian border to Skopje. Up to 15 industrial companies in the city are due to start buying gas next year. The $52m pipeline will initially carry about 100m cu m of gas yearly.

A new state-controlled company, Gama, is to build a domestic gas distribution network for Skopje and later construct spur pipelines to other Macedonian cities. Negotiations are under way for Gazprom, the Russian energy company, to take an equity stake in Gama by acquiring part of a minority shareholding held by Makpetrol, a privatised company which constructed the gas pipeline to Skopje.

Looking further ahead, Macedonia is keen to participate in two oil pipeline projects planned in the southern Balkans.

A feasibility study is under way for an 800km pipeline which would carry about 30m tonnes of crude yearly from Bulgaria's Black Sea port of Burgas to Vlore in Albania. However, the start of construction would depend on the timetable for large quantities of central Asian oil becoming available to western Europe.

A second pipeline would link Thessaloniki on the northern Aegean with Skopje and would replace transport of crude between Greece and Macedonia by rail. Two Greek oil companies that supply Macedonia with crude have shown interest in building the 220km pipeline at an estimated cost of $80m.

"This would be a much easier project than the trans-Balkan pipeline. The terrain is more convenient and the capacity of the pipeline wouldn't have to be more than 3m tonnes of crude yearly," says Boris Rikalovski, the energy minister.

PROFILE *Macedonian – Greek trade and investment*

Improved relations boost business

Macedonia has become a magnet for Greek businesses following a marked improvement in political relations between the two neighbours. This month, more than 140 Greek companies set out their stalls in Skopje at a trade fair organised by Hellexpo, a state-controlled Greek company which specialises in staging commercial exhibits.

In sharp contrast with past policy, Athens is now enthusiastically promoting economic ties with Skopje. It is barely two years since the Greek government yielded to pressure from the US and its EU partners and lifted an embargo on trade with Macedonia, imposed in an ill-founded attempt to make the former Yugoslav republic change its name.

The dispute is still unresolved, but under the terms of a UN-sponsored interim accord, Macedonian companies have regained access to the northern Greek port of Thessaloniki, the landlocked republic's nearest outlet to the sea. Cross-border trade has started to flourish and an increasing number of Greek companies are making long-term investments in Macedonia.

Exhibitors at the Skopje fair included many small- and medium-sized Greek companies, from ice-cream and confectionery manufacturers to distributors of household appliances and farm machinery. These companies have been exploring the Macedonian market from Thessaloniki, just three hours' drive from Skopje.

Bilateral trade is "growing steadily and has much more potential considering the proximity of the markets", says Alexandros Baltas, Greece's deputy economy minister. Trade with Macedonia was valued at $167m for the first nine months this year, compared with $232m for the whole of 1996, according to Greek estimates.

Greek exports to Macedonia are led by consumer goods, which mainly compete against products imported from Italy, Slovenia and Croatia.

"It has taken us about 18 months to capture three-quarters of the Macedonian market for consumer batteries," says Dimitar Narkov, sales manager of Axxon Skopje, the Macedonian subsidiary of Germanos, a Greek battery manufacturer and distributor. "The next move will be to open the Macedonian market to industrial batteries made by Germanos."

Because of its small size and position in a region still considered politically unstable, Macedonia has so far attracted little direct foreign investment compared to transition countries in central Europe. But for Greek investors in the southern Balkans who have faced economic and political turmoil in Bulgaria and Albania, conditions in Macedonia seem attractive.

The economy ministry in Athens estimates that Greek companies account for about half the $70m-$80m of foreign investment in Macedonia to date. The Greeks are already involved in tobacco-processing, marble production and mining of lead and zinc, while joint ventures are planned in brewing and soft drinks.

Greek companies have shown interest in acquiring equity stakes in Usje, the Macedonian cement producer, and in Okta, the oil refinery. Both companies are looking for foreign investors to inject fresh capital following their privatisation through management and employee buy-outs.

As the Macedonian government's plans to build a network of toll highways take shape, Greek construction companies are preparing joint ventures with Macedonian counterparts in order to bid for road projects being offered on a build-operate-transfer basis.

The Greek contractors say that in addition to equity they can contribute experience gained from participating in BOT projects presently under construction in Greece, including help in securing long-term financing from European banks.

However, the highest-profile Greek investment to date is the Vero supermarket, the first western-style supermarket in Macedonia. Opened last May, it belongs to Veropoulos, Greece's third-largest supermarket group, which has extended its royalty agreement with Spar of Germany to include Macedonia.

Vassilis Kakajotis, the Vero manager, says the 1,000-square metre store in the Aerodrom suburb of Skopje attracts 3,000 customers a day. About 60 per cent of goods on display are imported from Greece.

Veropoulos plans to open two more stores in Skopje next year.

Kerin Hope

ENVIRONMENT • by Kerin Hope

Growing some greener shoots

The government is starting to tackle pollution but is finding cash a problem

The Vardar river, broad and brown, flows through the centre of the Macedonian capital Skopje, before winding south through vineyards and wheat fields to pour its waters into the Aegean Sea.

The Vardar is part of a network of Macedonian rivers and streams which as well as providing water for agriculture, hold considerable potential for tourism. The mountains above the Ohrid and Prespa lakes, shared with Albania and Greece, could become popular attractions.

But even in mountainous areas, river banks are strewn with litter and the water contaminated by raw sewage and mining waste, much of which is dumped into rivers without treatment, according to Macedonia's increasingly active environmental groups.

Although Macedonia was mainly an agricultural producer for the former Yugoslavia, its deposits of lead, zinc, chrome and ferrous metals were extensively exploited. Following the practice elsewhere in communist eastern Europe, ore was processed close to residential areas at plants using out-dated Russian technology. Little attention was paid to atmospheric pollution or the disposal of hazardous wastes.

But as political and economic stability improves, Macedonia is becoming more aware of ecological problems that could threaten agricultural exports and the growth of tourism. For the first time, the government has started to address environmental issues.

It has endorsed an action plan setting priorities for environmental improvements, which was prepared by local experts and funded by the World Bank. A framework environmental protection law is in place, aimed at bringing Macedonia into line with EU standards over the next decade.

The environmental action plan says: "Old, inefficient production technologies, inadequate waste-control equipment, and weak environmental enforcement are the primary causes for industrial pollution.

"Some of the crucial environmental issues in the country are poor air quality in Veles and Skopje, polluted surface water due to discharge of untreated waste water and inadequate solid and hazardous waste management systems."

Tome Trombev, environment minister, says the biggest problem is a shortage of funds. The cash-strapped government lacks resources even for pressing needs such as building a waste water treatment plant for Skopje.

"No Macedonian city has a waste treatment plant," he says. "In Skopje both industrial waste and untreated sewage goes straight into the Vardar. It would cost about $100m to build a treatment plant but this level of funding is just not available from the budget."

Downstream from Skopje, waste from the Zletovo lead and zinc smelter in a residential district of Veles, a city of 70,000, is dumped in the Vardar. Mr Josif Tanevski, a consultant engineer and founder member of the Ecologists' Movement of Macedonia, says the state-owned plant's water treatment facility is in urgent need of repair.

"The smelter is Macedonia's biggest polluter," Mr Tanevski says. "Contaminated water is carried down river and across the border to Greece and used for irrigating crops in the Thessaloniki area. But sampling of the water quality at Gevgelija on the border shows this water shouldn't be used for anything."

The environment ministry has started regular inspections of the Veles smelter, which emits high levels of sulphur dioxide. As well as causing respiratory diseases, emissions have caused soil contamination.

Atmospheric pollution levels are highest in Skopje and Veles but also present problems in smaller cities like Tetovo and Bitola. In the capital, elderly cars burn petrol with a lead content four times the level permitted in the EU while the poor quality of locally refined heating fuel creates high levels of dust and sulphur dioxide.

"In Skopje, a significant statistical correlation between respiratory illnesses and dust particles has been established. A similar correlation exists between respiratory problems and average monthly concentrations of sulphur dioxide," the action plan says.

Industrial emissions were sharply reduced in the early 1990s when many factories cut production or shut down following a UN embargo against Serbia and a Greek trade blockade of Macedonia. But a pick-up in industrial output has raised fears that pollution will increase.

"Co-operation with several factories on trying to improve environmental standards is quite good. But companies say they have no spare money to install filters and other equipment," says Mr Tanevski.

International donors have focused on Lake Ohrid, the country's biggest lake and a unique biological reserve in southern Europe.

Mr Trombev says more than $10m should become available during the next five years to implement a strategic plan to keep the lake clean and protect it from the damaging effects of a projected recovery in tourism.

Ohrid is Macedonia's most important tourist resort, attracting more than 50,000 visitors in summer.

The strategic plan will provide for extending waste water treatment to the Albanian side where there are few residents but the lake's waters are polluted by mining waste and fertiliser run-offs from fruit farms.

Mr Trombev says: "Lake Ohrid is probably our most important natural resource. We have to develop a management programme in co-operation with the Albanian government and plan carefully to avoid too much development."

TOBACCO Foreign investment

Hint of the sweet smell of success

The aromatic tobacco grown in southern Macedonia has traditionally been the country's highest-earning export crop. In the communist era, Macedonia was a leading supplier of Oriental tobacco both to US cigarette manufacturers and to eastern Europe and the Soviet Union.

But economic transition brought problems for Macedonia's 50,000 tobacco growers. Output fell sharply despite rising prices on the world market, largely because Makedonija Tabak, the state-controlled tobacco trading company, was no longer eligible for special state subsidies.

"The tobacco industry used to have a special status because of Macedonia's international position as a producer of high-quality varieties," says a Macedonian agronomist. "But a lot of farmers haven't grown tobacco in the past few years because there were very long delays in payment after the subsidies stopped."

Oriental tobacco varieties, grown mostly in the southern Balkans and Turkey, are mixed with Virginia and Burley tobaccos in the production of American blend cigarette brands.

Macedonia grows much less tobacco than the other Oriental producers, but its Yaka and Prilep varieties are prized for their aroma. The country produced more than 30,000 tonnes of tobacco yearly at the end of the 1980s, with annual export earnings reaching more than $60m. Last year's output was only 12,000 tonnes, while Makedonija Tabak's stockpile of unsold tobacco had grown to almost 10,000 tonnes.

The outlook for tobacco growers has brightened, however, following the Macedonian government's decision last year to lift controls on producer prices for tobacco and to end Makedonija Tabak's trading monopoly by opening the market to foreign investors.

Macedonia's tobacco production doubled this year to 25,000 tonnes after farmers signed contracts at higher prices with new entrants to the market and received advances amounting to 20 per cent of the value of their crop.

Three of Macedonia's 20 tobacco-processing plants have been sold under the privatisation programme and talks are under way for disposing of another two.

Last year, A. Michailides Leaf Tobacco, Europe's biggest tobacco processor based in northern Greece, paid DM4.65m to acquire 82 per cent of Strumitsa Tabak, a southern Macedonian processor.

The Greek company, which also owns plants in Turkey, Albania, Italy and Slovakia, has invested DM4m in building a processing unit and tobacco-curing installations at the Strumitsa plant.

Alexandros Michailides, chief executive, says: "We decided to buy Strumitsa because of the quality of its management and because of its location near Greece – it helps to have factories near each other."

Socotab, the US processor that is the biggest customer for Macedonian tobacco, has acquired the Jugotutun plant at Bitola in western Macedonia. Socotab supplies Philip Morris, the US cigarette manufacturer, with Oriental tobacco, and used to buy about two-thirds of the annual crop from Makedonija Tabak.

Mr Michailides says he is committed to buying at least 8,000 tonnes of this year's crop and has also purchased 6,000 tonnes from Makedonija Tabak's stockpile.

Despite the recovery in output this year, the government has been reluctant to take liberalisation a stage further and allow foreign investors to introduce new tobaccos.

Mr Michailides says he is trying to overcome resistance to experimental growing of Virginia tobacco in the Strumitsa district. The Greek company has been accused by Kiro Dokuzovski, the agriculture minister, of introducing "diseased tobacco varieties" to Macedonia after organising a small Virginia-growing project with farmers in the Strumitsa district.

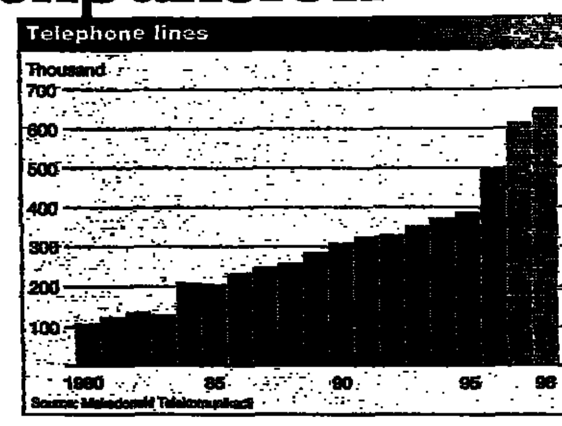
"We have the know-how from running successful Virginia growing projects in Bulgaria and in Turkey," Mr Michailides says. "Our growers produce excellent quality Virginia on the Greek side of the border and we think the same can be done on the Macedonian side.

Kerin Hope

TELECOMS • by Kevin Done

On the privatisation line to expansion

The hope is that the utility's sell-off will put the country on the investment map



Macedonia has received less foreign direct investment than any of the countries in east Europe since the collapse of communism. The government hopes, however, that plans to begin privatising the country's telecommunications utility next year will put it on the map for prospective investors.

Much remains to be done, but Branko Crvenkovski, Macedonia's prime minister, insists the privatisation will be "transparent" and in line with international standards.

The task of splitting the old posts and telecommunications authority was completed in August and an international tender has been launched for the appointment of a privatisation adviser to the government. From 16 applications the government has chosen a short list of three consortia led by Creditanstalt (Bank Austria), Union Bank of Switzerland and CIBC Wood Gundy (Canadian Imperial Bank of Commerce).

Kote Langovski, who is co-ordinating the privatisation programme at Makedonski Telekomunikacii, says the government intends to sell a stake of around 35 per cent to a foreign strategic investor. It has the ambitious aim of completing the deal by the end of next year.

The value of this single transaction is expected to exceed all of the foreign direct investment that has flowed into Macedonia to date, which totalled only $76m from 1989 to 1996, according to the European Bank for Reconstruction and Development.

The EBRD is playing a key role in MT's development and is to take an early equity stake in the company to give added credibility to the privatisation effort. The bank has agreed to commit up to $50m in equity. The size of its stake will be determined by the valuation of the company reached in the deal with a strategic investor.

The first EBRD equity tranche will be provided when MT is transformed into a joint stock company early next year. The second payment is to be made when the government fulfils its commitment to establish a new regulatory framework for the telecoms sector.

The EBRD is already helping to finance MT's modernisation through a $42.6m loan signed in early 1995 to support the development of the local, long distance and international telecommunications network. MT has financed the balance itself, most importantly by insisting on a DM1,000 down-payment or "non-refundable deposit" (reduced to DM500 in early 1997) from customers ordering a new line. It is a hefty charge in a country in which the average wage is little more than DM330 a month.

The scale of the challenge MT faces is indicated by the temporary satellite dish mounted on a truck outside the headquarters building in the centre of Skopje. This dish is still used to transmit half of the country's international calls.

Around $230m has been invested in the three years from 1995 to 1997 to provide an optical fibre backbone network and to increase the number of digital exchanges, supplied mainly by Alcatel of France and Siemens of Germany. According to MT around 418,000 telephone lines should be in operation by the end of this year, compared with 337,200 at the end of 1994.

With much of the base network and switches installed the number of lines is set to rise rapidly in the final years of the decade. A $350m investment programme planned for the five years 1998 to 2002 should provide an additional 100,000 lines in each of the next two years. The total is planned to rise to 686,000 by the end of 2000 – nearly double the 1994 level – and to 803,000 by the end of 2002.

By the end of 2000 Macedonia hopes to reach a telephone density of 33 subscriber lines per 100 inhabitants, against around 21 at present. About 450,000 lines of new capacity have been ordered, with some 290,000 lines aimed at new subscribers and 160,000 to replace old analogue lines. The telephone density is planned to reach 39 per cent by 2002.

The share of main lines connected to digital exchanges had already risen to 31.5 per cent by the end of 1996, compared with only 16.5 per cent two years earlier, and MT plans to complete digitalisation of the network by 2001.

MT also faces a big challenge reforming its tariff structure which is seriously distorted with cheap local calls subsidised by very expensive international charges. Twenty per cent of its revenues now come from domestic calls which comprise 80 per cent of the traffic while 80 per cent of revenues come from international calls which are only 20 per cent of the traffic.

The strategic investor which buys into MT will also acquire a stake in MobiMak, its wholly-owned Global System for Mobile Communications (GSM) subsidiary which launched its first service in September last year.

Around $18.5m has been invested so far with a further $61m planned during the coming five years. High prices – there is as yet no competitor for MobiMak – ensure that mobile phones remain an upmarket product and the preserve of government officials, businessmen and diplomats. MT is aiming to double its 12,000 subscribers to 24,000 by the end of next year, however, and it accepts that prohibitively high access fees and handset charges will have to fall.

STEEL • by Kevin Done

Awakened from a deep sleep

A surprise foreign takeover promises a lifeline for the hard-hit Skopje works

Reading the last rites over the Macedonian steel industry has proved premature. Much of the giant Skopje mines and iron and steel works, once the mainstay of the Macedonian economy, has either been closed or has lain idle, working only intermittently since the collapse of former Yugoslavia.

The prospects appeared bleak, but recently Makstil, one of four production units established as independent companies in the painful break-up of the old metallurgical complex, has been thrown a lifeline with a surprise takeover of a majority stake by Duferco, one of the largest European steel traders, based in Lugano, Switzerland.

In its heyday at the end of the 1980s Skopje iron and steel works was producing 1.2m tonnes a year of steel products with a workforce of more than 11,500. But it collapsed to become one of Macedonia's biggest loss-makers. The works was shorn of its former markets and raw materials supplies and isolated by the Greek trade embargo and the UN sanctions on Serbia.

"For five to six years the plant was in a deep sleep," says Mitko Kocovski, the newly appointed chief executive of Makstil.

Laborious efforts have been made to try to salvage something from the wreckage. Large parts of the old group have been shut down, the workforce has been cut to barely 3,000, and the remaining operations have been broken up into small independent units for both production and services.

A heavy burden of debt remained. But in one of the boldest moves of the restructuring, three of the complex's biggest creditors – Fersped, the freight forwarding group, Makpetrol, the dominant Macedonian oil product trader and service station operator and Tehnometal, once Macedonia's biggest foreign trade group – this year agreed to swap their debt for equity in part of the steel operations.

The three, all of which are privatised, acquired a 66 per cent stake in Makstil, the company formed to take on some of the core operations of the old steel complex. Makstil assets included the 250,000 tonnes-a-year electric arc furnace and continuous casting plant and the 300,000 tonnes-a-year hot plate rolling mill which had been the main supplier of steel plate to Croatia's shipyards.

The debt for equity swap opened the way for the new shareholders to bring in a foreign investor who would inject both capital and, most importantly, access to markets and raw materials.

Duferco has paid $16.5m to acquire a 54.4 per cent stake in Makstil leaving its three local partners with a combined 12 per cent stake (4 per cent each), with the rest owned by the 890-strong workforce and by a local bank and insurance company.

Mr Ben Sciortino, managing director of Duferco's non-trading activities including new acquisitions, admits the Skopje steel mill's location – its distance from markets and raw materials – is far from ideal. But he insists that "when we work the financial numbers, even with the disadvantages, the plant makes economic sense."

Duferco benefited from inside knowledge of the Skopje complex gained through the presence in its executive management of Minco Jordanov, once general director of the steel works in the communist era, and now head of Duferco's Moscow office and the new non-executive chairman of Makstil.

In the past two years the trading group has been expanding into steel production and processing with the takeover of financially troubled plants including Ferdofin in Brescia, Italy, and most recently Clebecq, near Brussels.

Duferco was established at the end of the 1970s by a group of Italian steel traders led by Bruno Bolfo, the majority owner. It had a turnover of $2.6bn in the year to the end of September and net profit of $44m. It traded around 6.5m tonnes of steel products in the last financial year and a similar volume of raw materials for the steel industry.

The Macedonia investment fits into the privately-owned group's strategy for east Europe where it has close operating ties with other producers in the region, including the Sartid steel plant at Smederevo in neighbouring Serbia.

In Skopje Duferco plans to supply slabs, the raw material for the rolling mill, mainly from Ukraine and Russia, and to sell the steel plate in Croatia and Serbia, as well as in west Europe and the US.

Duferco plans to run the electric arc furnace in Skopje producing crude steel for continuous casting into slabs as "a hedge" against fluctuations in world slab prices. The economic case for running the plant depends on the availability of scrap. Not much scrap is to be had in Macedonia itself, but Duferco says it is building up scrap collection in east Europe in Hungary and Romania as well as in Ukraine and Russia.

Local managers at Makstil are talking of ambitious plans to invest as much as $50m in the next five years to modernise the Skopje plant and improve its efficiency, but Mr Sciortino is more cautious. "We have assumed an investment of $5m in the next 12 to 18 months. Beyond that we will see how things go."

Mr Kocovski, Makstil chief executive, says the mill will have produced 160,000 tonnes of heavy plate in the seven months since May this year, mainly contract processing of slabs for outside suppliers. He forecasts output will be increased to 300,000 tonnes in 1998.

ARTS

Jerusalem split by battle for Bernstein legacy

Stephen Pettitt reports on the bitter wrangle over a music competition held to mark the memory of the late composer

The Leonard Bernstein International Competition, devoted to a search for new conductors, singers and composers, has been engulfed by the sort of factional rivalry endemic to its host city of Jerusalem, or even found in the late composer's most famous work – *West Side Story*.

The atmosphere between the various administrative bodies involved – the overseeing Bernstein estate, the Municipality of Jerusalem and the Jerusalem Foundation – has never been exactly relaxed. But this month things came to an undignified head with a very public schism. The Jerusalem Foundation, a charitable organisation, was accused of failing to honour its part of a financial pledge. Disappointed and perhaps panicked, the Israel-based administration, the clumsily named Leonard Bernstein Jerusalem International Music Competitions, looked to the Bernstein estate to make up the shortfall. When it refused – finance was never part of the deal, estate chiefs insist – the Israelis in effect accused the estate of using the competition as a free advertising hoarding. The estate's view is that, by lending the Bernstein stamp of approval, they had already performed a signal service to the image of the competition and of Jerusalem.

A battle of pride ensued, with all sides deeply entrenched. Inevitably local politics played a part in the debacle. Ehud Olmert, Jerusalem's rightwing mayor, widely touted as a candidate for highest office, was heavily involved.

Mr Olmert made a provocative speech in the prizegiving ceremony, summarily announcing – to the consternation of the Bernstein estate – a new competition. This would begin next year and be "in memory of Leonard Bernstein". In addition an international centre for musical competitions would be set up in Jerusalem, an idea announced almost as a triumphalist coup. Murmurings about legality came from the opposing camp.

Leor Segal, executive director of the Bernstein Jerusalem Competitions, expressed bitterness at what he saw as the estate's neglect of its responsibility. He protested that proceeds from the recent auction of some of Bernstein's personal effects at Sotheby's in New York were not going to help the competition. He even made a fuss about the destiny of rights from the sale of some Bernstein-branded pens. But the estate was adamant. Financial input was never part of the deal.

What of the future? Segal is off to manage the orchestra in Haifa. It remains to be seen whether there is the political and artistic will – or the money – to make a success of the proposed Jerusalem-based "in memoriam" competition. The Bernstein camp wants the existing competition to continue, though never again in Jerusalem. It will take a rest for a year while new sources of finance are being sought. When it resumes, it may well make a virtue of being peripatetic.

Amid such melodrama, it was easy to forget we were there to find one or more pieces from the six finalists worthy of a $20,000 Bernstein laureateship. Every composer had been required to write a piece in some way about Jerusalem. Oddly, no composer of the six, nor, as I understand, any of the 169 original entrants, had opted to include an Arabic slant.

The jury, nominated by 14 sponsoring institutions, mostly orchestras, from around the world, was a reasonably well mixed bunch, though woe betide anything with tonal aspirations when Luciano Berio is a jury member. Colin Matthews was there to represent the London Symphony Orchestra. There were no critics, however, which I felt was a bad thing. Many of us listen rather well and we tend to have far fewer stylistic axes to grind than most composers.

As it was, the jury was split down the middle when it came to the final reckoning. The music, played by the Jerusalem Symphony Orchestra and the Israeli Chamber Players and, in three cases, sung by the Debrecen Kodály Choir from Hungary under Mendi Rodan at the Henry Crown Symphony Hall, was on the whole rather disappointing. No laureate was named, though two pieces received honourable mentions and $10,000 apiece. They were the Basque composer Ramon Lazkano's *Lamentations* for chorus and orchestra and Frenchman Pascal Dusapin's *Celo* for cello (Sonia Wieder-Atherton) and orchestra. Twenty-nine-year-old Lazkano's powerful piece was full of subtle, intriguing textures, its final movement in particular recalling the complexities and resonances of Berio's *Sinfonia*. Dusapin's work was a sonorous, lush, touching and even nostalgic three-movement work, thoroughly professional in execution. But Dusapin, 42, has been on the international scene for some time. When I asked him why he had entered the competition he replied with disarming candour that it had been as a joke.

Of the also-rans, the modest Korean Shinuh Lee's *Psalm 30* showed more promise than achievement, unable to resist luxuriating in the sound when a more disciplined and intense approach might have yielded more powerful results. The Argentinian Jose Luis Campana's *Across Time* (with chorus) was a brief piece of political complexity, old hat although well meant. Fifty-one-year-old Romanian-Israeli Gabriel Iranyi's *If I forget thee, Jerusalem*, for baritone, choir and orchestra contained some impressive things. It was economical in resources and intense in flavour. Paolo Rimoldi's *Concertino (Kumi Ori)*, performed by the Israeli Chamber Players and one of few chamber works entered in the first place, was a quirky, but less than successful, take on neo-classicism, its solo writing centred on the harpsichord and its ideas metamorphosed from Bach's Fifth Brandenburg Concerto.

Theatre

Paper tigers and other villains

The editor is speaking gleefully to his chief reporter. "This ain't a newspaper story – it's a career." Not only have they got an escaped murderer hidden in the newsroom desk, they can make a connection to accusations of sleaze at the highest city administration levels. Days and weeks of juicy front-page revelations seem to lie brightly ahead of them. Next, the editor telephones the sub-editors about changing the main news stories. "To hell with the Chinese earthquake, what's that? ... NO! *Keep* the rooster story! That's human interest!"

This is *The Front Page*, the epoch-making American comedy of journalistic manipulations, written by Ben Hecht and Charles MacArthur in 1928 about the Chicago of the day. Though three movies have been made of it (1931, 1942, 1974), the play still makes classic theatre. On the one hand, the editor, Walter Burns, is goading the reporter, Hildy Johnson, to one sensational headline story after another. On the other, *Hildy is on the brink of quitting* newspapers and Chicago; he is engaged and his fiancée has lined up a new job in advertising for him. On this side, rampant cynicism; on that side, hopefulness, innocence, ideals. In this combination of dark and light, *The Front Page* – as the critic James Harvey once wrote – captures "a certain complexity, and even mystery, of the American consciousness and character".

The hard cynicism that Walter epitomises is this play's general climate; it is set in the press room of Chicago's criminal courts building. But Hildy struggles – against not only Walter but also the ingrained journalistic instincts of his worse self – throughout the play. The beauty of Hecht's and MacArthur's drama is how they make this *struggle funny, and indeed* how they make you laugh at the worst corruption and criminality without losing our values. You laugh, too, at the good-guy reporter, Bensinger: his poem about the *murderer is as bad in its way* as the chequebook journalism, the sleaze and the manipulations of justice.

Sam Mendes, directing this quintessential American work with British actors, does gloriously. The production is a triumph of ensemble: long before *the main comedy has begun to* erupt, it is a joy just to watch the interplay between the hardboiled reporters (played by Nicholas Gleaves, Ian Gelder, Martin Marquez, Mark Benton, Hilton McRae, Keith Bartlett). Adam Godley as Bensinger (employing a whining Woody Allen voice), Christopher Benjamin as the Mayor, and Ian Bartholomew (speaking often top-speed in brilliant patter) as Sheriff "Pinky" Hartman, are fully-fleshed comic characterisations of top quality: they shuttle us between shock and hilarity with real force.

Mark Thompson's design, Hugh Vanstone's lighting, and *the use of the jazz song "Christopher Columbus"* all make this Chicago room and milieu completely absorbing. My only reservations are that Griff Rhys Jones, for all his comic expertise, is too lightweight and cartoony for Hildy, and that the female roles are also too caricatured. If you don't take Hildy's fiancée a *bit* seriously, you don't have much sympathy for his better and non-journalistic side. As Walter, however, Alun Armstrong is nothing less than a dynamo, driving the play onward with immense power from his entrance (halfway through) on. At all levels, the production shows the most brilliant *ensemble and pacing to* be seen in London theatre today.

Alastair Macaulay

Donmar Warehouse, WC2 (0171-240 4882). Sponsored by Cable & Wireless.

Alun Armstrong and Griff Rhys Jones in a triumphant production of 'The Front Page' Alastair Muir

Opera/**Richard Fairman**

Knockabout Monteverdi

Four hours plus of Monteverdi is a daunting prospect. When this coproduction of *L'incoronazione di Poppea* started life in Munich, it apparently lasted four-and-a-half hours, but Welsh National Opera's performance came in at 45 minutes less. Evidently somebody had taken the shears to it along the way.

That was one of the right decisions taken on the musical side of this performance. Monteverdi is a difficult composer for standard opera companies these days, because the fashion is to hear his music on period instruments. WNO proposed a compromise: they hired Rinaldo Alessandrini, one of the top Monteverdi specialists, and gave him a reduced band of WNO instrumentalists. Even with so small a number the strings sounded heavy, but the music lived and breathed with marvellous freedom.

Alessandrini's recordings have been award-winners because they have shown what Italians can do with their own early music. In Cardiff, WNO fielded an English-speaking cast – not so telling with the Italian text, but at least the audience had surtitles to help. When Monteverdi's score blossoms into song there was much to enjoy: the famed, final duet – two voices entwining in rapturous union – was as sensual as pure, "authentic" singing could ever get.

What about David Alden's production? In Munich it seems to have been a huge success. Reviews quoting its "mordant humour" were posted up outside the New Theatre in Cardiff, but the sort of comedy going on inside was less a satirical nip on the shin than a pantomime-style clobber over the head with a blunt object. The drag role of Arnalta was played by Neil Jenkins as a music-hall dame and Linda Ormiston's Nurse was knockabout all the way. Regulars at the theatre did not need to wait for *Aladdin*. They could have had their Christmas panto last week.

It seems to be a feature of all the "school of controversy" producers from the 1980s that they fall flat on their face with comedy – and even that is not funny. Alden dealt heavy-handedly with Michael Chance's Ottone and Linda Kitchen's secretary bird of a Drusilla, too. His most amusing idea was to turn Seneca's students into schoolboy swots, scribbling his words of wisdom into their notebooks. Seneca himself, sung with simplicity by Gwynne Howell, became an armchair philosopher in a shabby suit.

Of course, even when it was written, *L'incoronazione di Poppea* was not intended to be a stuffy history lesson. Alden's vision of a modern, shallow world, designed in glossy colours by Paul Steinberg, has the virtue of being immediate and vividly characterised. Serious emotions are much more his forte: Sally Burgess, playing a power dresser Ottavia, was searing in her two monologues; Catrin Wyn Davies was a glittering starlet of a Poppea and Paul Nilon's Nero, a George Michael lookalike, gave a frighteningly intense portrayal of a mind crazed by power. There is plenty of ancient Rome's excesses around us today. At its best Alden's production brought that world alive afresh.

Theatre

The heart of the matter

Jo Harris is a 15-year-old girl who needs a heart transplant. Hospitals in Britain have excluded her from their transplant lists because she has Down's Syndrome. On so doing they have effectively condemned her to death.

Strathcona Theatre Company saw a television documentary about her plight and devised *A Change of Heart*, currently at the Young Vic Studio, as its response. This was not merely altruism on the company's part, since Strathcona's actors are themselves learning-disabled. The company has been in existence for the past 15 years and in the last three years has produced four full-length shows which have toured nationally.

Taking Hans Christian Anderson's *The Snow Queen* as a frame they have created a *mirror in which to see* themselves and in which society's distorted responses to them are reflected back to us the audience. Greta, the heroine of the story, is not only Anderson's heroine but also a fictionalised Jo Harris.

Her adventures take her on a journey to find a heart for herself and *to thaw the frozen* hearts of those pierced by the shards of the evil Troll King's mirror. In order to do this she must not only want to live but also to give life to others. Until she can imagine a future she cannot help her childhood sweetheart Karl find the word that will free him from the Snow Queen's spell.

The show's designer, Katrina Lindsay, creates wonderful winter landscapes using a spare but versatile set. As well as practical but ingenious set changes there are magical treats: twinkling stars, helicopter rescues and, appropriately for a fairy story, fairy lights. The choreography is also a delight, taking in synchronised skating, tobogganing, gypsy dancing (complete with macho duelling sequence) and the final smiling, sunlit pas de deux of the reunited sweethearts.

The cast, all of whom have worked on previous Strathcona productions, play a variety of roles. I particularly enjoyed Sheldon Antoine's exuberantly cool Karl and Paul Wakelin's wonderfully fogeyish professor.

The show itself is explicitly self-referential and makes it its business to be both aspirational and inspirational. The campaign for Greta/Jo's heart transplant is part of the plot and, cunningly, an advert for the power of the company's own productions is inserted in the testimony of the junior doctor, Ericsson. Together with *More Grimm Tales* next door, it adds up to a Christmas programme that is not just seasonal but educative.

Sam Albasini

Young Vic Studio until December 20 (0171-928-6363)

INTERNATIONAL
ARTS GUIDE

■ AMSTERDAM

OPERA
Netherlands Opera, Het Muziektheater
Tel: 31-20-551 8911
Dialogues des Carmélites: by Poulenc. New production conducted by Yves Abel in a staging by Robert Carsen. Cast includes Joan Rodgers and Sheri Greenawald; Dec 19, 22

■ BARCELONA

EXHIBITIONS
Fundació "la Caixa"
Tel: 34-3-207 7475
Madrid-Barcelona, 1930-1936: brings together a group of around 100 avant-garde works from the period of the Second Republic, before the Civil War. Includes paintings and sculptures by Picasso, Miró and Dalí, along with photographs, posters and films; to Dec 21

■ BERLIN

CONCERTS
Deutsche Oper
Tel: 49-30-34384-01
Carmina Burana: by Orff. Conducted by Rafael Frühbeck de Burgos. With the Clemencic Consort conducted by René Clemencic; Dec 19

Philharmonie
Tel: 49-30-2548 8354
Berlin Philharmonic Orchestra: conducted by Daniel Barenboim in works by Mendelssohn, Rihm and Bruckner; Dec 19, 20, 21

DANCE
Deutsche Oper
Tel: 49-30-34384-01
Deutsche Oper Ballet: Rosalinde, choreographed by Ronald Hynd to music by J. Strauss; Dec 17

OPERA
Deutsche Oper
Tel: 49-30-34384-01
Hänsel und Gretel: by Humperdinck. Conducted by Olaf Henzold in a staging by Andreas Homoki; Dec 18, 21

■ BOLOGNA

OPERA
Teatro Comunale
Tel: 39-51-529 999
www.nettuno.it/bo/teatrocomunale
Turandot: by Puccini. Revival conducted by Daniele Gatti in a staging by Hugo de Ana; Dec 18, 21

■ CHICAGO

OPERA
Lyric Opera of Chicago
Tel: 1-312-332 2244
www.lyricopera.org
Amistad: world premiere of Anthony Davis's new work about the 19th century anti-slavery campaign. Dennis Russell Davies conducts a production by George C. Woolfe; Dec 17, 20

■ HONG KONG

EXHIBITIONS
Hong Kong Museum of Art
www.usd.gov.hk/CE/Museum
National Treasures: Gems of China's Cultural Relics. Major exhibition assembling some 160 works of art on loan from China's 30 museums. Includes bronzes, jades, ceramics, paintings and tapestries, some of which have never travelled before. The *exhibition brings together objects* from all over China, and ranges from the Neolithic period to the early 20th century; to Mar 1

■ LONDON

CONCERTS
Barbican Hall
Tel: 44-171-638 8891
● Christmas Carol Concert: Richard Hickox conducts the London Symphony Orchestra and Chorus in a programme including Humperdinck's Hansel and Gretel Overture and extracts from The Nutcracker; Dec 20, 21
● London Symphony Orchestra: conducted by Tadaaki Otaka in works by Rachmaninov. With Leif Ove Andsnes in Piano Concerto No. 3; Dec 18

OPERA
Shaftesbury Theatre
Tel: 44-171-379 5399
The Royal Opera: Paul Bunyan, by Britten. New production staged by Francesca Zambello and conducted by Richard Hickox; Dec 17

■ LOS ANGELES

CONCERTS
Dorothy Chandler Pavilion
Tel: 1-213-365 3500
Los Angeles Philharmonic: conducted by Esa-Pekka Salonen in works by Beethoven, John Williams and Nielsen. With violin soloist Alexander Treger; Dec 18, 20, 21

■ MILAN

DANCE
Teatro alla Scala
Tel: 39-2-88791
Giselle: with sets and costumes by Marie-Louise Ekman; Dec 17, 18, 20

OPERA
Teatro alla Scala
Tel: 39-2-88791
Macbeth: by Verdi. Conducted by Riccardo Muti in a staging by Graham Vick, with designs by Maria Bjornson. Casts vary; look out for Maria Guleghina and Roberto Alagna; Dec 19, 21

■ NEW YORK

CONCERTS
Lincoln Center
Tel: 1-212-721 6500
www.lincolncenter.org
● New York Philharmonic: conducted by Kurt Masur in works by Shostakovich and *Prokofiev. With violin soloist* Midori; Avery Fisher Hall; Dec 17, 18, 19
● New York Philharmonic: conducted by Dr Walter J. Turnbull with the Boys Choir of Harlem; Avery Fisher Hall; Dec 20
● New York Philharmonic: *Klezmerfest. With the Andy* Statman Orchestra and Klezmer Conservatory Band; Avery Fisher Hall; Dec 21

DANCE
New York City Ballet, New York State Theater
Tel: 1-212-870 5570
George Balanchine's The Nutcracker; Dec 17, 18, 19, 20, 21, 22

EXHIBITIONS
Metropolitan Museum of Art
Tel: 1-212-879 5500
www.metmuseum.org
Picasso – The Engraver: Selections from the Musée Picasso, Paris. Around 150 engravings, etchings and woodcuts created between 1900 and 1942. The display includes carved woodblocks and metal plates; to Dec 21

OPERA
Metropolitan Opera, Lincoln Center
Tel: 1-212-362 6000
www.metopera.org
Il Barbiere di Siviglia: by Rossini. Revival of a staging by John Cox; Dec 17, 20

■ PARIS

EXHIBITIONS
Centre Georges Pompidou
Tel: 33-1-4478 1275
www.cnac-gp.fr
Bruce Nauman: spanning the career of the American artist, b.1941, this exhibition focuses on his relationship with language, and includes sound and video installations as well as neon *pieces like One hundred live and* die (1984). The exhibition will travel to London and Helsinki; to Mar 9

OPERA
Opéra National de Paris, Opéra Bastille
Tel: 33-1-4473 1300
● *Der Rosenkavalier*: by Strauss. New production conducted by Edo de Waart in a staging by Herbert Wernicke. Cast includes Renée Fleming, Susan Graham and Barbara Bonney; Dec 19
● La Traviata: by Verdi. Production directed by Jonathan Miller and conducted by James Conlon. Angela Gheorghiu sings the role of Violetta, with Ramon Vargas as Germont; Dec 20

Opéra National de Paris, Palais Garnier
Tel: 33-1-43439696
The Merry Widow: by Franz Lehár. Armin Jordan conducts a new production directed by Jorge Lavelli; Dec 19, 22

Théâtre des Champs Elysées
Tel: 33-1-49525050
● Fidelio: by Beethoven. Staged *by Patrice Caurier and Moshe* Leiser, with the Orchestre des Champs-Elysées and Choir of the Welsh National Opera. Conducted by Louis Langrée; Dec 18
● Leonore: by Beethoven. Production staged by Patrice Caurier and Moshe Leiser, conducted by Louis Langrée. With the Orchestre des Champs-Elysées and Choir of the Welsh National Opera; Dec 17

■ ROME

OPERA
Teatro dell' Opera
Tel: 39-6-481601
www.themix.it
La Fiamma: by Respighi. This first production of the season is *by Hugo De Ana, and is* conducted by Gianluigi Gelmetti; Dec 19

■ TV AND RADIO

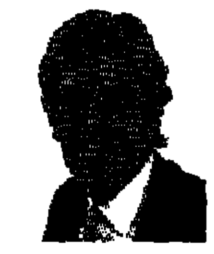
● **WORLD SERVICE**
BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHZ (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV
Monday to Friday, Central European Time:

● **NBC Europe**
10.00: *European Money Wheel*
Nonstop live coverage until 15.00 of European business and the financial markets.
17.30: *Financial Times Business Tonight*

● **CNBC**
08.30: *Squawk Box*
10.00: *European Money Wheel*
18.00: *Financial Times Business Tonight*

COMMENT & ANALYSIS



Edward Mortimer

Pyrrhic victory

Last week's EU summit may look like a Greek triumph. But the price could be permanent partition of Cyprus

Europe's south-eastern frontier has been drawn between Greeks and Turks, and it will run straight through Cyprus. The south, populated by Greeks, will become part of the European Union. The north, populated by Turks, will become de facto part of Turkey, outside the EU. Such, at least, is the logic of the decisions taken in Luxembourg and the Turkish reaction to them.

Of course, EU leaders protest that such is not their intention. Did they not solemnly proclaim Turkey's "eligibility" to join the EU? Did they not say Turkey's candidature would be judged by "the same criteria as the other applicant states"? Did they not promise "a strategy ... to prepare Turkey for accession by bringing it closer to the EU in every field"? Did they not, finally, invite Turkey to an annual conference of EU members and would-be members, to start in London next March?

Admittedly, conference members are required to commit themselves to certain common principles, including "the settlement of territorial disputes by peaceful means, in particular through the jurisdiction of the International Court of Justice in the Hague". This is just what the Greeks have been trying to get Turkey to do with the dispute over Imia/Kardak, an uninhabited Aegean island. But Turkey is hardly justified in describing these as "unacceptable conditions", since they are in line with what has already been declared at bilateral Greek-Turkish summits.

So an imaginative, self-confident Turkish leader might have claimed Luxembourg as at least a partial success, signalling his determination to exploit its potential to the full. Unfortunately Mesut Yilmaz, the Turkish prime minister, is not very imaginative; and his position as head of a minority coalition government hardly allows him to be very self-confident.

There is, in any case, no way Mr Yilmaz could have hidden from Turkish public opinion the fact that the EU is unwilling to give the same kind of commitment to Turkey that it is giving to central and east European countries, including those which, in its judgment, are *not* yet ready for actual membership negotiations.

Turks say they cannot understand how countries such as Romania and Bulgaria can be thought more ready for EU membership than Turkey. Those two countries tend to be mentioned because they are Turkey's neighbours – indeed, former Ottoman provinces – and because they are still in the early stages of post-communist economic reform. But Turks should also mention Slovakia, which has been fingered by the EU as falling short of the membership criteria on political and economic grounds.

In plain language, Slovakia is run by a populist thug who shows scant respect for constitutional niceties and routinely insults the ethnic Hungarian minority. But the EU rightly considers that it would not improve matters to exclude Slovakia from the accession process in which all 10 central and east European applicants, plus Cyprus, are to participate.

All 11 are invited to the formal launch of the process on March 30. Only six will then begin actual membership negotiations, but the other five will be offered "accession partnerships" and "increased pre-accession aid". Preparation of negotiations with them "will be speeded up in particular through an analytical examination of the Union *acquis* (the existing EU rules to which all new members have to conform).

Since Turkey is excluded from all this, it is not surprising that Turks believe the EU has no serious intention of admitting them – ever. And they are probably right. Helmut Kohl, the German chancellor, gave an unusually frank account of his motives when he said after the summit that "a dramatic change in the number of Turks in Germany would not be tolerable to German public opinion nor to those in the rest of the EU".

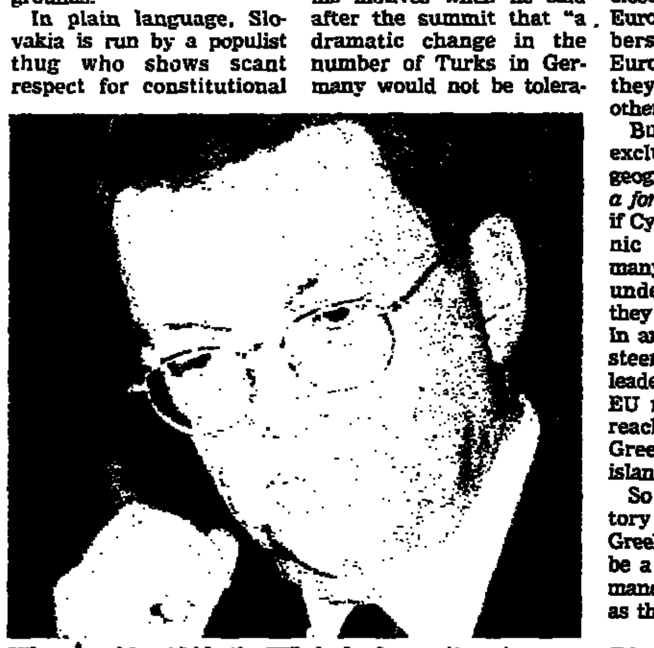
The same could have been said in northern Europe in the 1950s about the number of Italians, or in the 1970s about the number of Spaniards and Portuguese. But in those cases EU membership was seen (rightly) as part of the solution, not the problem. If Turks are now treated differently, it is not surprising they suspect racial or religious prejudice is behind it.

Of course the argument can be put geographically. "Asia Minor is not part of Europe," I heard a French politician say last week. But should not the EU have noticed this when it signed an association treaty with Turkey, explicitly intended to lead to full membership, way back in 1963?

Perhaps we should be hard-nosed about this, and say bluntly that, on reflection, full membership is not on. The Turks themselves might find, on reflection, that they are better off outside the EU, maintaining close commercial ties with Europe but spared the cumbersome constraints of European co-ordination as they cultivate links with other partners.

But if "Asia Minor" is excluded from Europe on geographical grounds, then *a fortiori* so is Cyprus. And if Cyprus is included on ethnic or cultural grounds, many Turkish Cypriots will understandably feel that they should be left out too. In any case, without a firm steer from Ankara, their leaders will neither join the EU membership talks nor reach agreement with the Greeks on reuniting the island.

So if Luxembourg is a victory for Greece and the Greek Cypriots it is likely to be a Pyrrhic one, with permanent partition of Cyprus as the price.



Yilmaz could not hide the EU's lack of commitment

Edward.Mortimer@FT.com

LETTERS TO THE EDITOR

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We are keen to encourage letters from readers around the world. Letters may be faxed to +44 171-873 5938 (please set fax to 'fine'). e-mail: letters.editor@ft.com Published letters are also available on the FT web site, http://www.FT.com Translation may be available for letters written in the main international languages.

Criticism of IMF based on faulty analysis and off the mark

From Mr Shailendra J. Anjaria.

Sir, Jeffrey Sachs paints a facile and distorted picture of the International Monetary Fund on the basis of analysis that he must know to be half-true or untrue (Personal View, December 11).

Intellectual probity would demand that Prof Sachs make clear, in his selective quotation of the 1997 annual report, that the citations refer to executive board discussions on Thailand in July 1996, and on Korea in November 1996, as the annual report states, and not "just three months ago," as he asserts. And even then, the Fund warned Thailand both publicly and privately.

Your readers can assess for themselves the selectivity of Prof Sachs' references to the annual report by accessing the IMF's website at www.imf.org.

Prof Sachs charges that IMF economists are not under effective control. IMF decisions are controlled by the 24-member board of executive directors representing the 181 member countries. As any close observer of the IMF should know, the IMF is probably unique as regards the massive extent of day-to-day, hands-on direction the executive board provides, and the firmness with which it holds management and staff fully accountable to it.

Prof Sachs' charge of excessive secrecy is also off the mark given the quantum leap in information now released by the IMF. In the case of Korea, the Korean government's letter of intent describing the programme has been published, as have all the details of the programme.

Prof Sachs suggests that the Fund's policy actions should await the outcome of a wider professional debate. Such a debate will rarely produce unanimity and, in a crisis, decisions have to be taken. Exchange and interest rate policy decisions are generally not debated publicly by policymakers before decisions are taken, especially in a crisis.

As to whether the programme for Korea has got the policy mix right, Prof Sachs overlooks how the loss of confidence and the expectation of a continued depreciation of the won had rendered a previously reasonable level of interest rates and domestic liquidity quite inappropriate, prompting the need for an urgent tightening in the very short run. As confidence returns, rates will decline.

Shailendra J. Anjaria,
director,
external relations department,
International Monetary Fund,
Washington DC 20431,
US

Sanctions an effective form of censure

From Mr James Drummond.

Sir, Willard Berry gives a somewhat one-sided and, with respect, inaccurate account against trade sanctions ("Why sanctions don't work", December 1). It is just not true that sanctions more often than not hit the people they are meant to protect. Military regimes, of which there are many glaring examples, stay in power by devoting a disproportionate percentage of their gross national product to keeping themselves there. Thus, even economies against which sanctions have been imposed can stagger along because they don't have to look after their own people. Multinationals, of which oil companies lead the van, continue despite sanctions to prop up various regimes, thus adding to the miseries of the indigenous people.

Mr Berry implies that universal trade is more important than government policy. Apart from the insolence of this immoral stand, it also ignores the moral duty of exporting countries to censure unjust regimes. He suggests that countries like the US should look at "other means", without coming up with any alternatives, since we all know few exist.

Any first-year student could educate your correspondent on the eternal need for any government to be two-handed. Horses for courses. And that should never restrict a government from censuring the worst-behaved regimes.

James Drummond,
Human Rights for Unrepresented Populations,
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Mawson ACT 2607,
Australia

Clearly time to reconsider value of gold

From Mr Abraham Aronowicz.

Sir, What financial times of delusion! The international monetary system fights bankruptcy on your December 13/14 front page ("IMF chief calls for $160bn increase"): The magician who runs the International Monetary Fund declares: "... nothing is easier than to proceed to a new increase in quotas, because it will not cost you a dime and it is the most efficient way to solve the problems of the world ...".

Japan bases its reflation effort on bonds mystically guaranteed by government-owned assets. Your weekend section then declares the "Death of gold" as its front feature. Is there nobody out there who considers the revival of gold as the only tool for creating monetary assets, which are not encumbered by some misguided bureaucracy's liability?

Abraham Aronowicz,
1168 West 54th Ave.,
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Canada, V6P 1N1

Takeda still working on insulin drug

From Mr Kiyoshi Kitazawa.

Sir, Your article on insulin drugs ("Bitter pill for insulin users", December 9) misstates the position in regard to two compounds developed by Takeda Chemical Industries.

Pioglitazone, a promising insulin sensitiser, was invented by Takeda and developed jointly by Upjohn and Takeda in the US. Upjohn ceased development of the compound in 1993, but, contrary to what your article says, this was a business decision and did not reflect any safety issues such as toxicity problems.

The development of the compound is continued independently by Takeda internationally at present. It is in the stage of NDA (new drug application for marketing) in Japan. Clinical studies are ongoing successfully in the US and EU countries.

Ciglitazone, the other compound you mention, was also invented by Takeda. The reason it was dropped from research was not – contrary to what your article stated – because of neurological defects.

Kiyoshi Kitazawa,
general manager,
development of strategic development,
pharmaceutical development division,
Takeda Chemical Industries,
1-1, Doshomachi 4-chome,
Chuo-ku Osaka 541,
Japan

Something to beef about

From F. Schwarzenberger.

Sir, One oddity in the current hysteria about that diseased British beef: because of European Union protectionism, customers in London are deprived of beef from other, BSE-free sources. Yet nobody seems to protest about that!

F. Schwarzenberger,
9861 East Mission Lane,
Scottsdale,
AZ 85258-5681,
US

Personal View · **Stanley Fischer**

IMF – the right stuff

Bailouts in Asia are designed to restore confidence and bolster the financial system

There have been several criticisms lately of programmes supported by the International Monetary Fund (including in the Financial Times). The programmes, say the critics, do not recognise the specific circumstances of the Asian crisis countries. They are said to be too contractionary, to push premature financial sector liberalisation, and to encourage investor folly by providing an official bailout. I will deal with the first two points. The third is different in kind and deserves separate treatment on another occasion.

When the IMF was called in to assist both Thailand and Korea, their reserves of were dangerously depleted and investor confidence was crumbling. Once a crisis erupts, easy solutions are not available, and a growth slowdown is inevitable.

The necessary first step is to rebuild confidence, which takes time and steady adherence to the economic programme, just as in Mexico. Perhaps even more so as financial sector restructuring, rather than macroeconomic stabilisation, is at the core of the IMF programmes in Thailand, Indonesia and Korea. Not the same old medicine, but medicine to deal with the ills of each patient.

On the macroeconomics of programme design. Fund programmes must estimate a growth rate for output. Usually this projection is reasonably optimistic, assuming only a moderate slowdown of growth. In the Korean programme, the growth rate assumed for 1998 is 2.5-3 per cent. Considering the deep crisis in which the programme began, this cannot be viewed as a contractionary goal. Rather it is an effort to prevent an inevitable slowdown from being worse than necessary.

But why ask for fiscal tightening and higher interest rates at all? We ask for no more fiscal adjustment than necessary to cover the costs of financial sector restructuring and to help restore a sustainable balance of payments.

The extent of fiscal tightening differs between programmes. In Thailand, which was running a large (8 per cent of gross domestic product) current account deficit, the initial fiscal adjustment was 3 per cent of GDP. In Korea, where the current account deficit was shrinking, the adjustment is 1.5 per cent of GDP, largely to amortise the public sector costs of financial sector restructuring. The budget allows for the amortisation costs, not the upfront capital costs, of the restructuring, because it is sensible to spread the budgetary costs over time rather than pay for them through an excessive immediate fiscal contraction.

Why not use an expansionary fiscal policy to offset the inevitable growth slowdown? External financing available only a few months ago has evaporated. Worse than that, a capital inflow has turned into a massive capital outflow. This is not the time to try to increase government borrowing. That can be done, and fiscal policy can turn a bit easier, when market confidence returns – as it inevitably will.

> It would be strange, with the country short of foreign exchange, for the government to take steps to keep out private foreign capital

Turning to interest rates, recent Asian programmes started after lengthy periods when monetary policy had sought to keep interest rates low, and reserves either poured out or the value of the currency plummeted, or both. International institutions and foreign governments then provided loans to help the affected countries to help them maintain and rebuild reserves, and to restore confidence.

These loans were not provided to finance a continuing capital outflow, driven by low domestic interest rates. People need to be persuaded to keep their money at home or not to withdraw it. Interest rates need to be raised, not excessively, not permanently, but to help restore stability. Of course, higher interest rates create problems for the banking system, but the banking systems were in trouble at the start of the Fund-supported programmes, not as a result of them. As stability is restored, interest rates will come down.

Why not, as some argue, keep interest rates low and allow the exchange rate to depreciate further, thus relieving the economy of the strain of higher interest rates? First, exchange rates have already depreciated too much – by 30-50 per cent in the affected countries, more than any calculation of initial over-valuation. Second, devaluation strains companies that have borrowed abroad. Third, and critical, excessive devaluations would help the crisis spread worldwide. The IMF was set up in part to prevent a repetition of that disastrous syndrome and we will not ignore the systemic implications of actions taken under programmes we support.

Turning to financial sector liberalisation, each of the recent programmes in east Asia provides substantial official support to the country in difficulty. It would be strange, with the country desperately short of foreign exchange, for the government to take steps to keep out private foreign capital. South Korea has long been touted as an example of the virtues of not opening the financial sector. One of the things to learn from the current crisis is that protecting the financial sector is in part simple protectionism, with all its familiar consequences of inefficiency and a failure to meet world standards.

Korea's decision to allow foreign banks to buy domestic banks and foreigners to buy 50 per cent of the shares in Korean companies are surely moves in the right direction. Some express concern at the elimination of restrictions on foreign borrowing by Korean companies and at the opening of domestic bond and money markets. But, in fact, the mistake was to allow domestic banks and corporations to borrow extensively abroad without prudential controls on their foreign exchange exposure.

The Korean programme will seek to correct this through mechanisms that will be put in place in conjunction with the programmes of the World Bank and the Asian Development Bank. This is consistent with past Fund support for market-based controls on short-term capital inflows – though that is hardly the prime problem at present.

There are many uncertainties about how to deal with the situation in east Asia. These IMF-supported programmes differ from more traditional programmes, particularly in their focus on financial sector restructuring. We have always learned from our critics. And we will continue to do so.

The author is the IMF's first deputy managing director

كانون الاول ١٧

COMMENT & ANALYSIS

FINANCIAL TIMES
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Wednesday December 17 1997

The IMF and its critics

The International Monetary Fund has become the world's economic fireman. Its job is to squirt money and conditionality on financial blazes. In carrying out its job, the IMF reflects the technocratic approach of the finance ministries and central banks that govern it. But its power has bred protests, not just from borrowers, but also from respected professional economists. The question is how far these are justified.

The criticisms of the IMF can be divided into three parts: grand strategy; methods of operation; and conditionality.

First, argues its critics, the IMF is increasingly dedicated to bailing out private foreign creditors from the consequences of their folly, thereby exacerbating the instability of the financial system it is supposed to strengthen. But this error, if error it is, is not one for which the IMF is responsible. That is precisely what the great powers want it to do.

Second, allege the critics, the IMF remains too secretive, powerful and unaccountable. To some extent, it is bound to be all these things. To its credit, it has become rather less secretive, though not yet open enough about the detailed assumptions and goals of its operations. But it is powerful and remote. That is the price the world pays for its existence.

Third, and more immediately, critics assert that the conditions it is imposing are inappropriate, at least for east Asian economies. Their illness is not macroeconomic profligacy, but the product of mistaken exchange-rate policies, fickle foreign investors and weakly regulated, even corrupt, financial systems. What is needed to restore confidence is structured reform and liberalisation of the financial system, along with finance to ease the panic.

In practice, however, finance is insufficient. Moreover, the IMF insists on monetary and fiscal tightening, in order – as Stanley Fischer, first deputy managing director, argues in the FT today – to "stabilise the situation," by halting the capital outflow. Yet since the programmes for Thailand, Indonesia and Korea were announced the currencies have fallen, against the US dollar, by 33 per cent, 35 per cent and (after recovery over the last two days) 16 per cent, respectively. The IMF has not restored confidence, probably because high interest rates aggravate the underlying illness.

It would be bold to argue that the IMF has no *raison d'être*, and risky to replace it with a number of separate bodies scattered around the world. But it is reasonable to insist on openness about its programmes and external review of their underlying assumptions.

The IMF is powerful. Its programmes in Asia are not yet working. If they fail, the Fund will have much to explain.

Meat scares

The UK Labour government has failed to learn one important lesson from the mistakes of its predecessor: do not get into silly rows with the European Union over beef.

The decision by Jack Cunningham, the agriculture secretary, to impose an import ban on certain types of meat will infuriate his EU partners just when he needs allies.

The British government will be asking the EU early next year to reflect the UK's progress in combating BSE – mad cow disease – by partially lifting the ban on exports of its own beef. Mr Cunningham's ban on the sale of UK beef on the bone followed by a ban on some imported meat products have hardly improved the chances of cool and rational negotiations.

In both cases, the dangers to health were minimal. Mr Cunningham's reactions seem to have more to do with domestic politics than a measured response to safety concerns.

His import ban follows a lengthy discussion in the EU about whether it should prevent imports of "specified risk materials" (SRMs), which include the skulls and spinal cords of cattle and sheep and goats over 12 months. It was thought that the human form of BSE might be caught from these parts. Under pressure from the US, the EU decided to postpone the import ban, but the UK is to take unilateral action from January 1.

If this were a matter of grave and imminent danger, the UK might be justified in going it alone. But it is not. The risks in this case might be of the same order as of being struck by lightning. BSE is absent from some EU countries and as likely to be eradicated from the UK in a few years' time...

Strong measures are still needed to combat the disease. But a sense of proportion is also required, especially when health scares based on minuscule probabilities become an excuse for trade protectionism.

This is the danger now. The US has decided to ban EU cattle and sheep meat on flimsy grounds. The EU's proposed ban on imported SRMs was drawn so widely that it threatened exports of some US pharmaceutical products. Now the UK seems to be playing its own game of tit for tat.

Mr Cunningham accused his EU colleagues of prevaricating and obfuscating. This is not the way to make friends. An EU-wide ban on SRMs may, on a highly precautionary view, be justified. But it may also need to be modified to meet the US's legitimate concerns. The UK must learn that leading in Europe requires constructive engagement on such issues. Storming out in a huff was the wrong tactic under the Conservatives. It is just as wrong now.

Bye bye Buba

Tomorrow, the Bundesbank will set its 1998 M3 target. This will be the last monetary target it produces before it becomes just one voice within the European Central Bank's governing council. The Bundesbank style of policy-making, however, will live on, as the European Central Bank has been closely modelled on it – perhaps unwisely.

Central banking has recently been through something of a revolution. The keywords have been independence, accountability, and transparency. On the first count, the Bundesbank is well ahead of the field, having been independent since its inception in 1957.

But the Bundesbank still has a reputation for excessive secrecy, and it remains largely exempt from accountability. It does not publish the minutes of the meetings of its central bank council, where interest rates are set. It has no formal accountability to the German parliament. It does make extensive use of other channels of communication, such as speeches and statements by council members and a monthly report, but these can send an ambiguous signal.

To understand why the Bundesbank works this way, look back at the circumstances under which it was formed. Germany had just suffered two devastating bouts of hyperinflation. Confidence in elected politicians had disappeared. The overwhelming wish of the electorate was to restore monetary stability; the way to achieve this, it was believed, was to remove the process from any interference by politicians. The Bundesbank was therefore made as independent as possible – which meant making it unaccountable.

And over the past few years, despite the moves toward accountability and transparency elsewhere, the very success of the Bundesbank has insulated it from change. If it ain't broke, the German authorities thought, don't fix it.

History also helps to explain why the Bundesbank is so successful. It has built up, over many years, a huge stock of credibility. The public's faith in its ability explains how the Bundesbank can miss its monetary targets around half the time, without ratcheting up inflation expectations.

The Bundesbank has been an extraordinarily successful institution, in spite of its stubborn refusal to accept change. But the secret of its success lies not in its institutional set-up, but in Germany's history. The European Central Bank will be starting up under very different circumstances, at a time when the demand for information and explanation is great. It must respond imaginatively to these new realities if it is to gain the credibility that the Bundesbank has enjoyed.

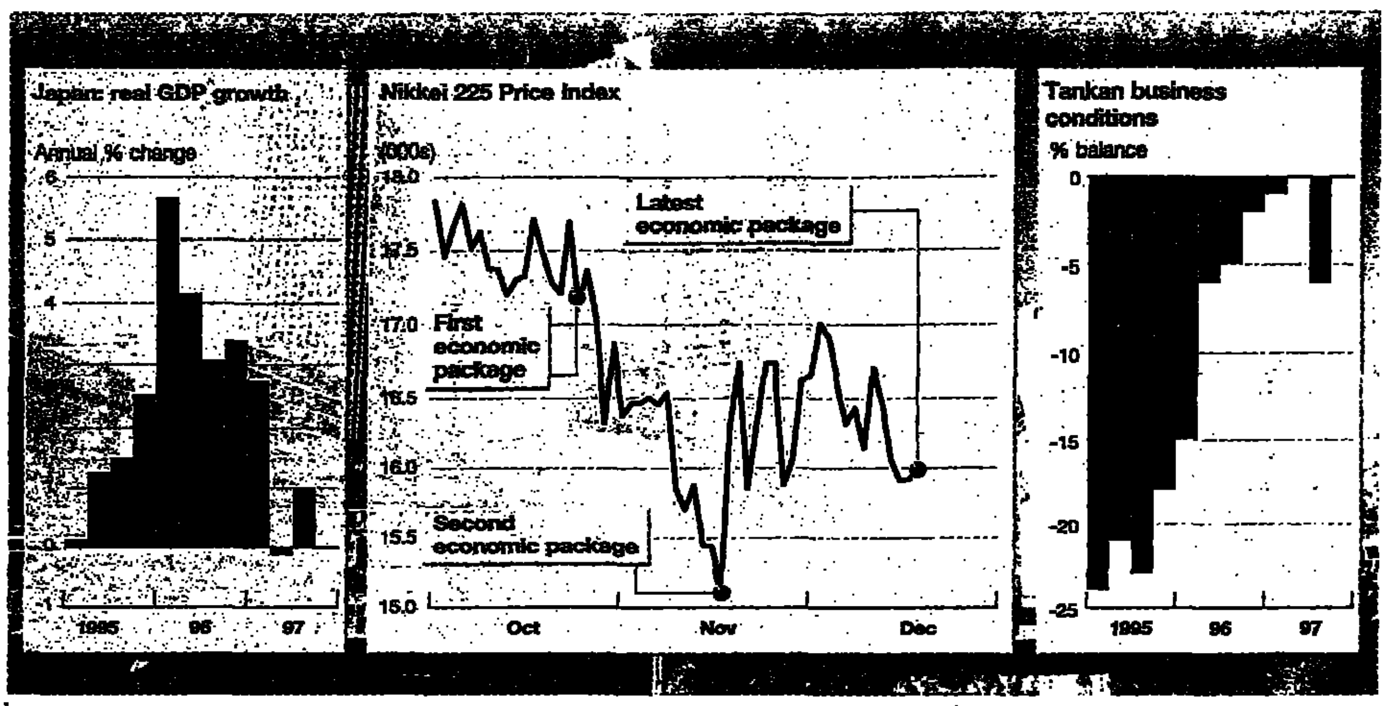
Everything and nothing

Japan's measures to stave off financial crisis and recession may not be enough to convince the markets, argues **Gillian Tett**

When Ryutaro Hashimoto, Japan's prime minister, met nervous Asian leaders this week he made a bold pledge: "We will never let Japan trigger a global crisis. We will do everything to prevent that."

Yesterday the Japanese government started to spell out what "everything" meant. Faced with economic stagnation and the recent collapse of several banks and brokerages, it disclosed plans for Y860bn of tax cuts next fiscal year and Y10,000bn of funds to support its deeply troubled financial sector.

Investors are asking themselves whether Mr Hashimoto's version of "everything" will be enough. The answer is that the package appears to lack enough timely concrete measures to convince markets there is no risk of a serious economic downturn in Japan. And the impression remains that the Japanese government is unwilling – or unable – to tackle its problems with anything more than a "muddle-through" approach.



The stakes are high and rising. Economic data have been dire. A business survey this week showed confidence had slumped in recent months. Gross domestic product fell by 1.4 per cent in the six months to September though the government insists that this is distorted by consumption tax increases in April. Fears are rising that Asian turmoil could hit Japan's exports next year, particularly because Korea is its largest Asian export market.

Last month three large financial institutions collapsed. Although there have been no more failures in recent days, weak banks and life assurance companies are under huge pressure. The financial markets continue to watch nervously for any signs of fallout as the situation worsens in Korea.

Japan is, as its officials point out, in a very different situation from Korea. As the world's largest creditor it has huge foreign exchange reserves to throw at any crisis. Reports of a joke from a US politician asking if Japan might soon join those seeking aid from the International Monetary Fund infuriated officials in Tokyo.

International unease is clear. If Japan bolsters its own economy, it could provide a motor to help the rest of Asia pull out of crisis. Conversely, if it collapses into serious recession, it could turn Asia's downturn into a more serious global problem.

Yesterday's measures are designed to prevent this from happening. In the short term, the Y10,000bn package to support the banking system (although the money is not due to be available until next spring) may stave off any immediate market crisis. But it may be little more than a sticking-plaster solution.

This week's measures are merely the latest in a series. Japan's ruling Liberal Democratic party and Finance Ministry have already unveiled several other preliminary packages in the past three months. These too contained bold pledges to transform Japan's situation, but like yesterday's announcement were distinctly vague on concrete details.

True, the sense of urgency has now grown. At the recent Asia Pacific Economic Co-operation summit in Vancouver, Mr Hashimoto was warned of the growing international concern that the ailing Japanese economy was provoking.

But Mr Hashimoto is in no position to provide a swift solution. He came to office pledging to cut the huge budget deficit, now some 7 per cent of gross domestic product, while previous government attempts at a stimulation package in 1995 did not work. Interest rates are already at a record low. And though the yen has fallen sharply recently, further falls could provoke US criticism.

Thus hedged in, Mr Hashimoto has resorted to a hotchpotch of old and new reform ideas, carefully crafted as a compromise between different LDP factions.

One is tax cuts. LDP officials yesterday said corporation tax would be cut by some 3 percentage points in fiscal 1998, while taxes on securities and property transactions would also be reduced.

Such measures are eminently sensible. The planned net tax reductions mark a policy shift, because, until recently, the government insisted that any tax reforms would have to be revenue neutral.

The problem is the cuts may not go far enough, being the equivalent of just 0.2 per cent of GDP. This would not be sufficient to bolster the economy if a serious recession emerged. Furthermore, there is no cut in income tax – a measure many economists believe is crucial to improve Japanese consumer confidence.

The limited nature of the cuts could even leave the government implementing an effective fiscal tightening next year since, under present plans, government spending will fall in fiscal 1998. Some economists calculate that this could entail a net fiscal reduction of 0.5 per cent of GDP, more than the tax cuts would put back into the economy.

Mr Hashimoto's other policy plank is stabilisation of the wobbly financial system. An LDP report on this yesterday also contained plenty of good ideas. It calls for better accounting standards and has proposed issuing Y10,000bn of bonds to back the financial system. This is one of the few truly new items in the package and marks a distinct policy shift. Until recently the LDP insisted it would not use public money to help the financial sector.

But the scope of these measures is also in doubt. It is unclear, for example, whether the Y10,000bn bonds would actually be issued, or simply act as a reserve scheme to be used in case of new banking crises after next April. Although the government has indicated that the bonds might be used to expand the capital base of banks, the criterion for this is vague.

Furthermore, though Y10,000bn might be enough to protect depositors at failed banks or brokers, it is not enough to recapitalise all the weak banks or deal with the bad debt problem. Bad debts held by the Japanese banking system are officially calculated at almost Y30,000bn (although some government calculations put them nearly three times higher). Yesterday's package, in other words, is not a final solution to the financial problems.

Japanese officials might retort that it was never intended to be. Although the markets would dearly love a grand gesture to boost Japan's economy, few of Japan's trading partners believe a solution can be secured merely by throwing money at the problem. "The sad truth is there is no magic wand that will solve all the problems," says one diplomat. "What is needed is lots of separate, practical measures."

Indeed, yesterday's package is unlikely to be the final word. More measures to deregulate the economy may be announced, even as early as today. The Ministry of Finance's budget plans will come on Friday and, even after that, more proposals could emerge if the economy weakens further.

Some suspect this week's package may turn out to be just another step in the building of a Japanese consensus. It may not bear fruit for several more months. "I think income tax cuts will come eventually," says Professor Takatoshi Ito of Hitotsubashi University. "That is what is needed."

The rub is that such hopes for the future may do little to reassure investors now. The problem in Japan, as elsewhere in Asia, is one of confidence – and, above all, public relations and presentation.

Investors are demanding more than vague pledges about future measures to stave off crisis. They want signs of clear, co-ordinated and rapid policies. This week's package provides a start to this. Unfortunately, it has probably not gone far enough to satisfy all the market's demands.

Policymakers in limbo

As Japan's financial problems have mounted this winter, one man has seen business flourish.

Dan Harada, a local political consultant, has been besieged by western companies seeking advice about how Tokyo's opaque political system actually works.

"It's quite a change," says Mr Harada, who has sometimes been cold-shouldered by western banks. "It seems people have suddenly realised they have been overlooking the politicians."

As Japan unveils its economic programme, one intriguing question is hanging over events: just who is actually formulating policy in Tokyo these days?

Until recently, most westerners believed the answer lay with the bureaucrats rather than politicians.

In recent decades, the Ministry of Finance has been legendary for its perceived control over policymaking and over Japan's financial world.

That may be changing. What has driven the market in recent days has not been the actions of bureaucrats, but rather diverse statements from members of Japan's ruling Liberal Democratic party.

"Power is slowly shifting away from bureaucrats towards politicians," argues Mr Harada.

The Finance Ministry is certainly keenly aware that it is regarded as a main culprit for Japan's policy mistakes. It is consequently deeply reluctant publicly to formulate new ideas now.

To add to its insecurity, the planned Big Bang deregulation of financial markets leaves it uncertain about its own role.

In the new market driven rhetoric, officials recognise that the MoF can no longer dictate all operations of the financial system. Furthermore, the ministry is slated to be reorganised next year.

"The Ministry of Finance has lost all confidence now," says Masatake Matsuda, a Japanese executive. The Bank of Japan is in a much stronger position. A bill has already been passed giving it independence and a clearly defined territory next year. But like the MoF, it is nervous about becoming a future scapegoat for the financial mess – and is thus reluctant openly to initiate policy.

The result is that the public initiative for policy measures in recent weeks has almost entirely come from the different factions of the LDP.

The idea for a Y10,000bn bond issue, for example, was proposed by one senior politician, Seiroku Kajiyama, who was previously little known outside Tokyo and is regarded with deep unease by parts of MoF.

This might appear comforting for the cause of democracy. But it has made policymaking very complex.

The LDP is riven with factional disputes, while many politicians appear to have scant understanding of international markets.

And though MoF is currently reluctant to initiate policies, it still carries huge de facto blocking powers.

Either way, Japan's byzantine world of policy formulation seems unlikely to get any less mysterious – or frustrating – to outsiders.

Gillian Tett

· OBSERVER ·

Panic attack

■ Vojislav Seselj, the ultra-nationalist former paramilitary leader contesting Serbia's presidential run-off this Sunday, *has attracted the wrong* kind of attention again, thanks to his bull-necked, Porsche-driving bodyguard Petar Panic.

Police have arrested Panic after he beat unconscious a 47-year-old resident of Zemun, the picturesque Belgrade suburb on the banks of the Danube where Seselj – locals call him the Red Duke, US Balkans envoy Robert Gelbard called him a fascist – is mayor.

Branko Munjiza got annoyed when someone started building a sales kiosk outside his house, and was filling in the foundations when Panic arrived and attacked him. The brutal response has fuelled suspicion that Seselj's Radical party is benefiting from the proliferation of building sites.

The Socialist regime's newspaper Politika – keen to see its man Milan Milutinovic come through on Sunday – has made much of the affair, demanding an end to the "kiosk terror".

In July, Panic worked over a lawyer who threw a glass of water over Seselj: the Red Duke *insisted that the lawyer had* slipped on a banana skin "several times". The official explanation of Munjiza's plight should be worth hearing.

Howzat!

■ The Patronat, the French employers' federation, broke *new ground yesterday by* choosing a president versed in the arcane art of cricket scoring. Ernest-Antoine Seillière acquired the skill nearly 50 years ago during two years at school in England. If he can cope with the byzantine world of no-balls, silly mid-offs and maiden overs, he'll have no trouble keeping a straight bat on the notoriously sticky wicket of French government-business relations.

Banker drafted

■ Czech premier-elect Josef Tosovsky is very tall and very polite – a contrast to Vaclav Klaus, the spiky, self-opinionated economist who fell from power last month.

The central banker was a tenacious critic of Klaus's economic policies, arguing that his stubborn insistence on a fixed exchange rate merely encouraged speculative capital inflows and suffocated exporters. Tosovsky was vindicated in May by a run on the currency and *enforced devaluation.*

The official line is that President Vaclav Havel – despised by Klaus who saw intellectuals as ineffectual and usually irresponsible to boot – chose Tosovsky because he was politically neutral, acceptable both to the ruling coalition and the opposition social democrats.

But the president must feel *some satisfaction in replacing* Klaus with a man who is not only an intellectual but also the banker who proved Klaus to be out of touch with what the markets were *telling* him.

Foreign policy

■ A few years back, Pehr Gyllenhammar was the most popular man in Sweden, beating even King Carl Gustaf in the opinion polls. But the love affair turned sour along with Gyllenhammar's plans to turn Volvo into an industrial powerhouse; these days the author of I Believe in Sweden is more likely to be seen in London than Gothenburg and has a string of UK directorships.

The well-connected 62-year-old will be one of only a handful of continental Europeans at the top of FT-SE 100 companies when he takes the chair at Commercial Union next year.

CU has always cut a cosmopolitan dash in the pin-striped ranks of British *insurers, and four years ago* bought Groupe Victoire of France. Chief executive John Carter, an unassuming actuary, will be as keen as anyone not to be left standing in the next round of deal-making.

Who better than Gyllenhammar – founder of the European Round Table of Industrialists and nowadays a *cog in Lazard's* well-oiled machine – to help CU maintain its continental drift?

Crédit rating

■ So much for the French government's attempts to redress the balance of power between the executive and the legislature by keeping parliament more in the picture.

Economics, finance and industry minister Dominique Strauss-Kahn took great pains to ensure that the first to know of his plans for reforms to the mechanisms set up to bail out Crédit Lyonnais yesterday morning would be the National Assembly finance commission.

But yesterday the appeal court removed Henri Emmanuelli's right to sit in parliament when it upheld a judgment against him for his role in illicit fund-raising for the Socialist party. Emmanuelli also happened to be chairman of the finance commission, so the meeting had to be postponed. By the time *deputies were briefed, the* decision was all over the media.

The Financial Times

100 years ago

Austro-Hungarian Relations
Buda-Pesth, 16th Dec. The Lower House of the Hungarian Diet to-day began the discussion of the Independent Hungarian Bill for the provisional regulation of the economic relations between Hungary and Austria, which, having passed the Finance Committee, is now again before the House. M. Pulszky, the reporter, said: "With the end of the year, the existing treaty relations between Hungary and Austria lapse, and consequently an *independent regulation of* these relations has to be made. However, any sudden change would be a danger for both states, and that change could jeopardise the prestige of the Monarchy with Europe."

50 years ago

Monetary Upheavals
City circles were still discussing yesterday the implications of the drastic monetary reforms in the Soviet Union. One observer expressed the opinion that this development serves to emphasise the extent to which physical controls are gradually breaking down. In many countries, ample evidence is available of the way in which people with the wherewithal are able to ride roughshod over all the regulations.

FINANCIAL TIMES
Wednesday December 17 1997

Bonn attacks UK for its planned food ban

By Michael Smith in Brussels and George Parker in London

Germany's agriculture minister said yesterday the UK's proposed ban on the import of certain animal parts at its borders and ports would be an infringement of European Union law.

Jochen Borchert led a series of attacks by EU ministers following Britain's decision on Monday to ban "specified risk materials" (SRMs), mainly the brains and spinal cords of cattle, sheep and goats.

The prohibition is due to take effect from January 1 as part of the UK's fight against mad cow disease. Mr Borchert said it was "legally unjustifiable" and asked the European Commission to examine a possible infringement of single market rules.

Fernand Boden, farm minister of Luxembourg, which holds the rotating presidency of the EU, said he and his fellow ministers were not pleased to hear of the UK ban. On Monday, the EU ministers agreed to postpone implementation of an EU-wide prohibition on SRMs until the end of March.

"We have always said we should not go it alone over food safety and public health. We have to work together to restore confidence in beef," Mr Boden said.

The UK ministry of agriculture insisted the UK had acted legally, since it was simply implementing Commission proposals three months earlier than other member states.

Jack Cunningham, Britain's agriculture minister, flew back to London to face protests from farmers whose incomes have been hit by the BSE crisis and a soaring pound. He will attempt to pacify them by offering additional subsidies to hill farmers, who have suffered the greatest fall in incomes this year.

It emerged yesterday that the proposed UK ban would be more onerous than the government had suggested. On Monday, officials said SRMs could be removed from imported cattle, sheep and goat meat after they arrived in the UK. Yesterday, the officials said the material had to be removed before the meat arrived in the UK.

Mr Cunningham said France already had similar laws.

Franz Fischler, EU agriculture commissioner, said his officials would be examining the UK ban to see if it infringed EU legislation. He said the Commission had no legal objection to an earlier UK decision to ban beef on the bone.

The Conservatives, the main UK opposition party, said they would oppose Mr Cunningham's plan to ban beef on the bone in the UK on the grounds it was a "draconian" response to a minuscule health risk.

Elsewhere, Mr Fischler said restrictions on EU meat and animal imports announced last week by the US were unjustified and, because they had been implemented without consultation, did not comply with World Trade Organisation rules.

He said he did not think the US's stated motive of protecting health could "be the valid basis for taking the decision".

Benefit of the doubt, Page 8
Editorial comment, Page 17

US to oppose proposal for big increase in IMF funds

By Gerard Baker in Washington

The US will oppose a proposal by Michel Camdessus, the managing director of the International Monetary Fund, for a big increase in IMF resources, when the fund's board meets to consider the plan today.

Robert Rubin, the US Treasury secretary, said proposals for additional funding, approved by the board earlier this year, would prove sufficient to meet immediate financing needs. "Once they are put in place, the IMF will have adequate funding," he said.

The opposition of the US, the fund's largest board member, will almost certainly ensure that the IMF plan will have to be shelved. On Monday, Theo Waigel, the German finance minister, said Germany, the third largest board member, also thought the proposal was premature, and other European countries seem likely to oppose the plan.

At the IMF's annual meeting in September the US backed measures to increase the fund's quotas – subscriptions from member countries – by 45 per cent, or about $100bn, and to implement a new borrowing facility to enable the IMF to deal with emergencies such as the Asian crisis. But Mr Camdessus will argue at today's meeting that the quota increase needs to be raised to between 70 and 80 per cent – an extra $60bn – to take account of changed financial circumstances.

Although officials acknowledge the Asian crisis of the last six months has weakened the IMF's funding base, the Clinton administration is heavily constrained by domestic political hostility to increased contributions.

Congress last month blocked $3.5bn in US contributions to the so-called New Arrangement to Borrow, and have yet to consider the initial proposal to increase quotas by 45 per cent. Officials had been expecting a tough fight to persuade hostile congressional Republicans to agree to the plans when they return next month, and President Bill Clinton last night urged Congress to approve the money.

Leading Republicans yesterday lined up to condemn the IMF's proposal. "I do not believe that a huge quota increase will be well received by the US congress," said Jim Saxton, chairman of the Joint Economic Committee, who called instead on the IMF to raise private funds.

"There is no reason why the American taxpayer should be bailing out people overseas who are suffering the consequence of their own mistakes," said Ron Paul, a Republican member of the House Banking committee.

South Korea in drive to win over IMF, Page 6
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'Interference' in Lyonnais asset sale

Continued from Page 1

delayed at least until January because of disagreements between Paris and Brussels.

Mr Strauss-Kahn said CDR had suffered from directives from the two previous centre-right governments to liquidate its assets rapidly, which reduced their potential value. This had helped raise the total costs of the rescue plan, which Karel Van Miert, the EU competition commissioner, estimated recently at FFr150bn.

The French government maintains that the losses reported at CDR are closer to FFr100bn. Officials concede further funds will be necessary to finance the remaining assets until they are sold. The original rescue plan approved in 1995 estimated the costs to taxpayers at FFr45bn.

The government is also fighting to prevent the EU from imposing new conditions on Crédit Lyonnais.

Mandela vents ANC rage at white privilege

By Roger Matthews in Mafikeng

Nelson Mandela revealed the depths of black frustration after more than three years in power in his least conciliatory speech as president of South Africa yesterday, which is

The five-hour speech, marking his retirement as president of the African National Congress, showed mounting anger at white attitudes, bitterly criticised the media, attacked mainly white political parties and demanded a fairer distribution of capital.

Mr Mandela was particularly harsh in criticism of whites fighting to prevent change. He said that, because the work of transforming society had been relatively slow, the real strength of the counter-offensive seeking to maintain white privileges had not yet been tested.

"However, the desire to maintain those privileges has been demonstrated consistently since our last conference in 1994," he said.

The president took long breaks while delivering during the speech, prompting speculation as to why such a demanding task was placed on the shoulders of a 79 year old just 24 hours from retiring as president.

His former wife, Winnie Madikizela-Mandela, who may seek nomination for deputy president of the party, received a huge cheer from the 3,000 delegates as she took her place on the platform.

Mr Mandela said the mainly white political parties, supported by the media, had been most vigorous in opposition whenever legislative and executive measures had been introduced "seeking to end the racial disparities that continue to characterise our society".

He said there was serious resistance to reforming the public service, and counter-revolutionary forces were waiting for a moment of weakness to act decisively against the democratic system. The National party was denounced as being interested only in defending white privilege.

Mr Mandela said the private sector had to understand "that the perpetuation of the apartheid patterns of economic ownership and control constitutes a recipe for an enormous social and political explosion".

In terminology, rarely, if ever, used previously by Mr Mandela, he declared the country "must secure an acceptance and actualisation of the proposition that while capital might be owned privately, yet there must be an institutionalised system of accountability for the owners of capital".

See Lex

THE LEX COLUMN

Joyless Japan

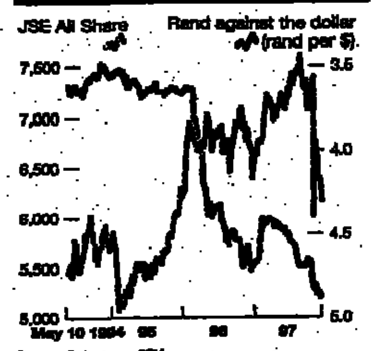
Three questions need to be asked of the much-leaked Japanese fiscal package: will it stabilise the financial system, will it revive an economy teetering on the edge of recession, and will it arrest the crisis of investor and consumer confidence? Short term, it can hardly help but offer some relief. The Y10,000bn ($75bn) financial stability package, in particular, will take the pressure off beleaguered institutions. Likewise, a Y880bn package of tax cuts will certainly provide an economic stimulus.

But it still looks like the familiar tale of too little, too late. The stabilisation package is well conceived: using public funds to protect depositors and the financial system is uncontroversial. But there is a loophole that might yet allow funds to filter through to weak banks. And with implementation probably still two months away, the risk is that imported problems, possibly from Korea, will overtake the package.

More bothersome are the tax cuts. Not only are they too small, falling well short of reversing the fiscal retrenchment announced in April, but they are misdirected. Japan is suffering from a slump in consumer demand. But instead of encouraging consumers to spend some of their huge pile of savings, the government has targeted tax cuts on corporate Japan. Short term, the stabilisation package is probably enough to prompt a rally in financial stocks. But with the government still underestimating the gravity of the economic downturn, the worst probably still lies ahead.

FTSE Eurotop 300 index
983.2 (+22.4)

South Africa



Source: Datastream/ICV

Chase Manhattan

There is nothing like keeping your options open. Following yesterday's management changes, Chase Manhattan has no fewer than six vice chairmen to choose from when current boss Walter Shipley retires in three years time. More worryingly, the strategic direction of America's largest bank looks as opaque as its succession plans.

It is an open secret that Chase wants to play in the investment banking superleague. To do so, it needs to acquire a serious presence in equities: buying anything smaller than PaineWebber, Donaldson, Lufkin & Jenrette or, best of all, Merrill Lynch would not satisfy the needs of its global clients. Chase has the resources for a deal this size, but has so far – quite sensibly – balked at the prices being demanded. Nor is it clear that the combination of traditional commercial and investment banking really works. Both Barclays and NatWest have decided that the returns do not justify the risks. Less glamorous, though potentially more rewarding, would be a domestic deal on the lines of the original Chase/Chemical merger, which produced huge cost savings. Chase could try to become the first nationwide commercial and consumer bank in the US. The snag, once again, is price.

Chase can afford to sit on its hands for now. It is performing well and if a bear market develops it may be able to buy more cheaply. But at some point the lack of strategic clarity will impact on its valuation, making the next big deal that much more difficult.

South Africa

Does Nelson Mandela's retreat from the frontline of South African politics spell the start of a slow downhill slide for the country? It would be easy to think so. Any successor will struggle to bridge the racial divide with similar success. And his own somewhat truculent comments yesterday are a reminder that racial tensions remain close to the surface. Coming hard on the heels of Zimbabwe's recent policy disasters, they strike a particularly discordant note.

Still, the reality is unlikely to prove so bleak. Mr Mandela's enormous reputation did not translate into an investment bonanza. Since he took office South African shares have risen 11 per cent, compared with 63 per cent for the UK market and 116 per cent for the S&P 500 index. And the rand has fallen by nearly 50 per cent against the dollar. Thabo Mbeki, his successor, may prove better news for investors. He will be under huge pressure to deliver black upliftment rather than appease business and investors with fiscal rectitude. But his willingness to take some of the hard decisions Mr Mandela shirked augurs well. And the government will be less able to hide behind the skirts of Mr Mandela's reputation.

Compared with other emerging markets, South Africa's growth record has been stodgy. But amid current turmoil, solid financial institutions, transparent earnings and sound regulatory structures suddenly look a whole lot more appealing.

Bass

Before cracking open the Hooch in celebration, shareholders should question whether Bass's plans to hand them back some £850m ($1.4bn) go far enough. When set against the proceeds from its recent slew of disposals – £279m for its Gala bingo business and £564m for around 1,400 mostly tenanted pubs – a handout of this size will not tighten up the company's balance sheet significantly. Furthermore, the company might soon sell its Coral bookmaking business. If it went for 16 times 1997 operating profits – the same multiple paid for William Hill – it would realise around £400m. So the pressure on the undergeared company to make a big acquisition will only grow.

Bass could afford to pay around £2bn and still cover interest payments four times. The danger is, of course, that Bass may end up overpaying. In hotels, a slowing in the build-up of new franchisees in the US is holding back growth. This puts the onus on Bass to deliver its strategy of expanding in continental Europe and Asia. Most likely, it will search for something like Granada's Meridien or Saison's Inter-Continental chain. Its other options – to pump money into its managed pub business or brewing – offer less attractive growth prospects.

Now trading at a small discount to the market, Bass's shares have benefited from the same defensive plays that have pushed up food retailers. But if it splurges on an over-priced European acquisition, it will not only be the alcopops that make shareholders sick.

See additional Lex comment on National Express, Page 26

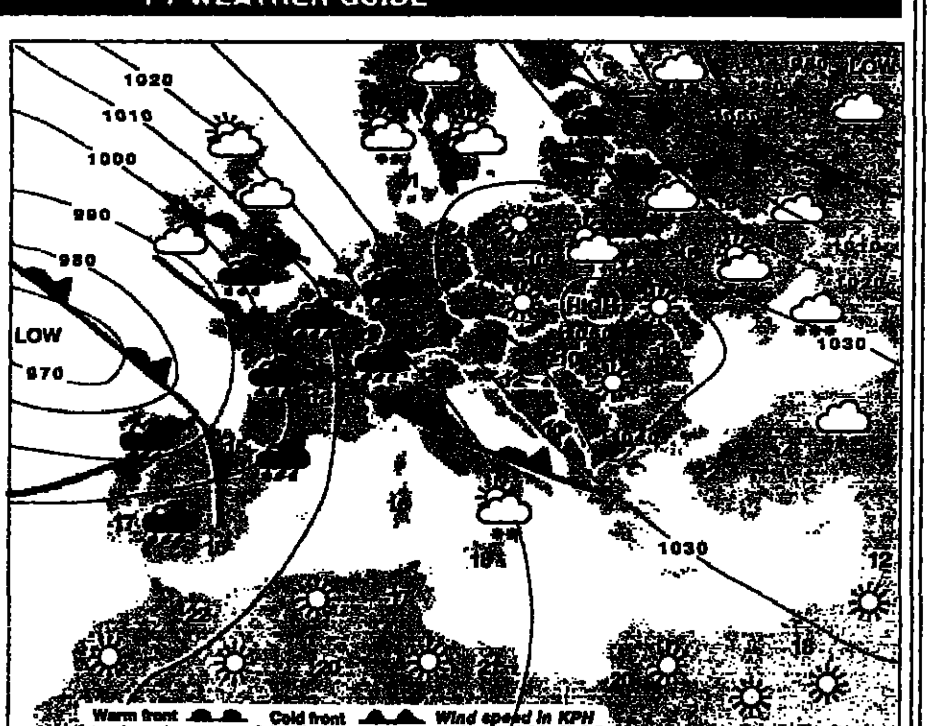
FT WEATHER GUIDE

Europe today

Northern Scandinavia and north-eastern Europe will turn colder and more wintry as a cold front moves southwards. Southern Scandinavia should be mainly dry and frosty, but southern Finland will have some rain and a mild westerly wind. Eastern and south-eastern Europe will remain largely dry and bright, but will be very cold with a severe frost. Central Europe will be cold, but there will be a strong wind and some snow flurries over the Alps. France will have rain, preceded by snow in the north and east. The central and western Mediterranean will be unsettled. The Iberian peninsula will have heavy rain.

Five-day forecast

North-eastern Europe will be increasingly cold with snow showers, followed by clear skies and severe frost. South-eastern Europe will have hard frosts as high pressure continues to dominate. Central and western Europe will become mild with rain at times, but the Alps will have heavy snowfalls.



Situation at midday. Temperatures maximum for day. Forecasts by PA WeatherCentre

TODAY'S TEMPERATURES

	Maximum	Beijing	Fair 7	Cardiff	Rain 8	Frankfurt	Fair 0	Madrid	Rain 13	Rangoon	Fair 33
	Celsius	Belfast	Cloudy 6	Casablanca	Rain 22	Geneva	Fair 1	Majorca	Fair 18	Reykjavik	Shower 7
Abu Dhabi	Sun 26	Belgrade	Fair 1	Chicago	Sun 3	Gibraltar	Rain 18	Malta	Fair 18	Rio	Rain 28
Accra	Fair 31	Berlin	Fair -4	Cologne	Fair 3	Glasgow	Fair 5	Manchester	Sleet 5	Rome	Rain 13
Algiers	Fair 22	Bermuda	Shower 23	Dakar	Sun 29	Hamburg	Fair -2	Manila	Fair 31	S. Frsco	Rain 13
Amsterdam	Fair 3	Bogota	Cloudy 21	Dallas	Sun 16	Helsinki	Rain 4	Melbourne	Fair 25	Seoul	Fair 8
Athens	Shower 9	Bombay	Fair 31	Delhi	Fair 19	Hong Kong	Fair 26	Mexico City	Sun 20	Singapore	Thunder 32
Atlanta	Sun 15	Brussels	Fair 1	Dubai	Sun 25	Honolulu	Fair 27	Miami	Fair 24	Stockholm	Fair 1
B. Aires	Fair 25	Budapest	Fair -2	Dublin	Sleet 6	Istanbul	Hail 3	Milan	Rain 6	Strasbourg	Fair 0
B.ham	Sleet 4	C.hagen	Fair 1	Dubrovnik	Rain 11	Jakarta	Thunder 32	Montreal	Snow 0	Sydney	Sun 28
Bangkok	Fair 35	Cairo	Fair 20	Edinburgh	Sleet 5	Jersey	Rain 10	Moscow	Fair -15	Tangier	Thunder 19
Barcelona	Rain 15	Caracas	Fair 30	Faro	Thunder 20	Johannesburg	Thunder 26	Munich	Fair -1	Tel Aviv	Rain 18
						Karachi	Sun 29	Nairobi	Fair 24	Tokyo	Rain 11
						Kuwait	Sun 22	Naples	Shower 14	Toronto	Fair 0
						L. Angeles	Sun 21	Nassau	Shower 26	Vancouver	Rain 9
						Las Palmas	Fair 27	New York	Sun 9	Venice	Drzzl 6
						Lima	Fair 27	Nice	Rain 10	Vienna	Cloudy -2
						Lisbon	Thunder 17	Nicosia	Fair 18	Warsaw	Sun -7
						London	Sleet 6	Oslo	Fair 0	Washington	Sun 10
						Lux.bourg	Cloudy 1	Paris	Rain 6	Wellington	Fair 20
						Lyon	Fair 7	Perth	Sun 28	Winnipeg	Fair 1
						Madeira	Shower 22	Prague	Fair -5	Zurich	Fair -1

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FINANCIAL TIMES
COMPANIES & MARKETS
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INSIDE

Seoul stocks get pre-election boost

The South Korean stock market has responded well to measures to boost share prices ahead of tomorrow's presidential election. The government injected Won11,300bn ($7.2bn) into financial institutions to ease a liquidity shortage, while it allowed the won to float from yesterday. But analysts warn the market is likely to remain volatile for several months. Page 40

Glencore sells SA vanadium producers
Two South African vanadium producers that account for 17 per cent of world production of the material – used in alloys to strengthen structural steel – are being sold. Switzerland-based Glencore is selling both Vantech and its 83 per cent stake in Rhoex to Südelektra, the Swiss natural resources group. Page 30

Thai Olefins seeks halt to repayments
Thai Olefins, the petrochemical group run by the state-owned Petroleum Authority of Thailand, was seeking to halt principal repayments on $400m of loans, bankers said. Page 20

UK loses 'lowest gas prices' slot
Britain has lost its standing as the country with the lowest natural gas prices for large business users, according to a survey by National Utility Services, a UK-based consultant. Page 30

Platinum falls to new low
Platinum's price fell to a 4½-year low. Traders pointed to aggressive selling while the market was full of rumours about Russian sales and a drop in demand because of Asian financial turmoil. In the past week the price has dropped by $40 an ounce, or more than 10 per cent. Page 30

Companies in this issue

Market Statistics http://www.FT.com

CROSSWORD, Page 30

Chief price changes yesterday

FRANKFURT (DM)			
Rises			
Felten	139.0	+	20.0
Strabag	119.0	+	8.0
Weber (G) Prf	41.0	+	2.5
Falls			
Plettac	234.0	−	18.5
K&M Mobel	13.2	−	1.1
Moksel	12.6	−	1.0
NEW YORK ($)			
Rises			
Nycomed Am B	38	+	3¾
Primark	40⅞	+	3⅛
Solectron	34⅞	+	5¼
Falls			
Jones Apparel	41⅛	−	6¼
Liz Claiborne	43⅝	−	5⅝
OSullivan	10¾	−	1⅛
LONDON (Pence)			
Rises			
Abbey Natl	1147	+	90
Nycomed NV	2265	+	160
Wickes	254	+	14
Falls			
Alumasc	242½	−	63½
Danka Bus	217½	−	292½
Parkwood	47½	−	16
TORONTO (C$)			
Rises			
CSI Grp A	27.3	+	3.3
Newbridge Net	51.9	+	3.9
Samex Gold	3.75	+	0.75
Falls			
Can Fracmas	9.6	−	1.15
Star Data	5.65	−	0.85
Western	6.4	−	0.75

PARIS (FFr)			
Rises			
Localinance	30.0	+	17.8
Lucda	75.9	+	17.5
Sacl	945.0	+	104.0
Falls			
Fonn Therm	1135.0	−	478.0
Provida	18.0	−	3.0
Oreall-Back	703.0	−	99.0
TOKYO (Yen)			
Rises			
Chugai Phrm	630	+	36
S'tomo T&B	760	+	54
Falls			
Daiwa House	805	−	45
Kajima	328	−	59
Nippon Hodo	405	−	35
Sanden	650	−	63
HONG KONG (HK$)			
Rises			
Sime Dar (HK)	5.0	+	0.2
Falls			
Cheung Kong	48.5	−	1.1
Citic Pacific	30.1	−	0.6
Hutch Whamp	47.5	−	0.9
SHK Ppt	53.5	−	1.25
TVB	20.0	−	0.6
BANGKOK (Baht)			
Rises			
Bata Shoe	14.5	+	3.0
Safari World	25.25	+	5.25
Thai OPP	16.75	+	3.75
Falls			
Thai Glass	30.25	−	12.75
Thai Ind Gas	18.5	−	6.5
Thaicotton	37.0	−	15.5

New York and Toronto prices at 12.30pm.

Chase outlines big changes at top

Bank fuels speculation about succession

By John Authers in New York

Chase Manhattan, the largest US bank – with more than $350bn in assets – yesterday announced its most sweeping management change since its $11.35bn merger with Chemical Banking two years ago.

The reorganisation surprised observers by substantially increasing the power of two executives – Thomas Labrecque and Donald Boudreau – who had been with Chase before the merger. Former Chemical executives have generally been seen to hold the upper hand in the new organisation.

It also intensified speculation about the ultimate successor to Walter Shipley, the bank's chairman and chief executive, who is 62, and about the future strategic direction for the bank, which has extensive operations in both retail and investment banking.

The most significant change sees a promotion for Thomas Labrecque, the bank's 59-year-old president. He will now function as a "totally coequal partner" with Mr Shipley. Some analysts interpreted this as a signal that Mr Labrecque, who is three years Mr Shipley's junior, will succeed him as chief executive. However, others said the reshuffle simply increases the competition for a long-term successor to Mr Shipley or Mr Labrecque.

Donald Boudreau wins a powerful new position as head of Chase's global consumer operations. He will also be a member of a new nine-member executive committee that will co-ordinate corporate strategy. Mr Boudreau's responsibilities will include all the bank's credit card and consumer lending operations, as well as its large retail branch network in the north-east US. Michael Hegarty, who had previously been in charge of its US regional banking operations, is leaving the company.

Other members of the executive committee include William Harrison, who heads Chase's global bank, Donald Layton, who heads global markets, James Lee, who runs global investment banking, and Marc Shapiro, who runs finance and risk management.

In a statement, Mr Shipley and Mr Labrecque said they would look to this team for "future top management leadership of the corporation". The new structure is intended to stay in place for at least the next three years, until Mr Shipley's likely retirement.

The reorganisation also increases the importance of technology, particularly in the bank's retail operations. Denis O'Leary, formerly chief information officer, has been given responsibility for consumer product delivery, including electronic delivery channels, and will serve on the executive committee. Joseph Sponholz, who is heading a division that will combine Chase's information technology and operations with its moves into electronic commerce, will also serve on the committee.

Lex, Page 18

Daimler to sell Temic to Vishay for $500m

By Graham Bowley in Frankfurt

Daimler-Benz, the German motor and industrial company, is to sell its Temic semiconductor business to Vishay Intertechnology of the US for about $500m.

The sale, which was widely expected, marks the latest step in Daimler's strategy of selling off peripheral activities in order to concentrate on its core transport businesses.

In June, Daimler, which is restructuring its businesses after suffering record losses in 1995, sold its stake in Cap Gemini, the big French software consultancy.

Daimler will retain the more successful automotive electronics business which is also part of Temic Telefunken, its microelectronics division. Vishay Intertechnology, the electronics components manufacturer, is based in Pennsylvania and has 17,000 employees. The acquisition will almost double Vishay's size in terms of sales, which stood last year at DM1.9bn ($1.1bn).

Eckhard Cordes, Daimler board member, said: "Daimler-Benz continues its strategy to focus on businesses directly related to transportation products, systems and services."

Daimler had signalled that Temic was up for sale. The division made a loss in 1996 but is now profitable, Daimler said. "We discussed a sale with three parties, but decided Vishay was the best fit. We will keep the automotive electronics business which is profitable," said the company.

The Temic semiconductor unit employs 6,700 people, 2,000 of whom are based in Germany. It also has plants in France, the UK, Austria, the US, the Philippines, Taiwan and China. Sales this year are expected to be around DM1.5bn – more than half of which will be in Germany. In the US, Temic operates Siliconix, the computer chip manufacturer, based in Santa Clara, California.

Felix Zandman, Vishay chairman, said the acquisition positioned Vishay "as the broadest worldwide manufacturer of discrete electronic components, passive and active, as well as a manufacturer of integrated circuits". It follows Vishay's acquisition of 65 per cent of Lite-On Power Semiconductor, the diode manufacturer, of Taiwan.

Hang Seng to include more Chinese stocks

By Louise Lucas in Hong Kong

The Hong Kong stock market is to give greater weight to Chinese companies in its benchmark stock index. From next month, two mainland heavyweights will join the Hang Seng Index: China Telecom, which was listed in October, and Shanghai Industrial, the Shanghai municipal government's investment window company, which was the first redchip – mainland-backed – company to be listed last year.

The move, which has meant revisions to the selection criteria, comes after only 24 per cent of the Hang Seng Index was traded in August compared with the usual 60 per cent.

In the months surrounding the July handover, when China resumed sovereignty over Hong Kong, investors rushed to buy redchips, making them some of the most actively traded stocks.

As well as reshuffling the main index, HSI Services, a subsidiary of Hang Seng Bank which compiles stock indices, said it would launch a new Hang Seng 100 Index in April.

"The local stock market has reached a state where it needs a series of indices to meet the different needs of investors. Most major stock markets offer a series of price indices to provide investors with indicators of their choice," said Mr Anthony Wong, chairman of HSI Services.

The benchmark Hang Seng Index retains the same number of constituent stocks as now – 33 – despite calls to broaden its scope and dilute the influence of stocks with a big capitalisation, such as HSBC Holdings' 22 per cent weighting, and those where cross-holdings increase their influence.

The new inclusions have resulted in two stocks being removed: Shun Tak Holdings, the Hong Kong flagship company of Stanley Ho, the Macao casino magnate, and South China Morning Post Holdings, publisher of the territory's leading English language daily newspaper. The two have a combined market capitalisation of less than HK$14bn ($1.8bn) compared with China Telecom's HK$152bn and Shanghai Industrial's HK$20bn at the end of November, and are far less actively traded.

The reliance on property, a backbone of the Hong Kong economy and its stock market, remains high at around 28 per cent, but the weighting of redchips grows to around 10 per cent from under 2 per cent.

HSI Services has jettisoned two selection criteria: requiring companies to have a substantial business presence in Hong Kong and a listing history of at least 24 months. Mr Wong said the revisions reflected structural changes to the local stock market with more listings of H-shares (China enterprises) and China-affiliated corporations.

Doug Dunn, head of Philips Electronics' newly reorganised consumer division Picture: Lydia van der Meer

Philips prepares for battle

By Gordon Cramb in Eindhoven

Philips is to develop more products as potential winners, price existing lines aggressively and increase spending on marketing as part of a plan to reassert itself in consumer electronics worldwide.

After more than a year of cuts and closures, the Dutch group yesterday pronounced itself in shape to renew battle with its mainly Far Eastern competitors in the market for high-volume goods such as television sets.

Doug Dunn, head of a newly reorganised consumer division accounting for as much as a third of group sales, said: "We have charted out the path for Philips for the future. We have quite strenuously reconfirmed our commitment to the broader consumer market."

In the first discussion on future strategy by a senior executive since the tough-talking Cor Boonstra took over as Philips president in October last year, Mr Dunn rejected any idea that the group should abandon an established product range because the value added was low.

"It will not make me embarrassed if they are called commodity products. We make money on them."

Philips is to target Asia as a market and an investment location in spite of the area's economic upheavals since this autumn. "We are going to invest heavily in China," said Mr Dunn. Impact on group finances from a fall-off in regional consumer demand was "not discernible yet".

Shares in Philips, at Fl 114 yesterday, are 36.2 per cent below their early October peak. Although their value is still double that when Mr Boonstra took office, they have been weighed down by worries over the outlook for Asia.

Mr Dunn acknowledged that electronics manufacturers in countries such as South Korea would try to sell their way out of trouble by discounting. But he added: "Price erosion is caused by companies like Philips. It is part of our strategy. We will compete on price."

It plans to lift promotional spending across its markets from the current level of roughly 3.5 per cent of revenues and ally itself more closely to multimedia breakthroughs. "Philips is determined that it is going to be the leading player in this new wave of products," Mr Dunn said.

Hungry animal, Page 22

Barry Riley

Value investors wait for the return of normality

The latest revival on Wall Street – taking the S&P 500 Index, although not the Dow, to a new all-time high this month – has further inflamed the wounds of the overseas managers who have been so underweight in US equities all year.

At the risk of repetition, it is worth setting out once again why London's global managers have been so sceptical of Wall Street in the 1990s. But more *fundamentally*, what 1997 has shown so clearly, not just in the US, is that when value managers lose control of their markets they can flounder for extended periods.

Investor attitudes were formed in the 1980s when the US stock market was the worst performing of the major global markets. The US was written off by many foreigners as slow-growing and inefficient, albeit with an interesting technology sector.

The second important factor from the late 1980s was that London came to believe in its talents for market timing. Its managers then correctly judged that Japan's stock market was a bubble that would *predictably* burst.

Value-based market timing clearly added return compared with strategies driven more by capitalisation-based weights, as were often favoured by US-based global managers at the time.

Between 1989 and 1993 the average UK pension fund, in its overseas equity portfolio, beat the World ex UK index total return by 6 per cent a year.

In the late 1990s the hubristic London managers have taken the same value-based view of Wall Street. Their successful Japanese strategy, they calculated, could be profitably repeated for the US. They have progressively sold down US equities and waited. They are still waiting. And waiting. It looks as though the average UK pension fund's overseas equity portfolio will underperform the World ex UK Index by around 10 per cent in 1997.

The problems are also quite severe for UK pension funds in their own domestic market. As *I pointed out last week*, they underperformed the All-Share Index return by 180 basis points in the first 9 months. Some of this was clawed back in October and November, but December's market rally, which by last night had taken the All-Share back to within 3 per cent of its high, has wreaked havoc again.

> Attitudes were formed in the 1980s when the US was the worst performing of the major markets

Normally, the UK institutions in aggregate perform almost exactly in line with the All-Share, not surprising when they own around half of it. What has helped create this year's anomaly, though, is that the pension funds have been steadily selling UK equities. Funds in the WM All Funds Universe (about 75 per cent of the whole sector) disposed of UK equities worth £3.7bn ($6.1bn) in the third quarter, for instance. In doing so they have lost control of prices.

As Philip Isherwood, strategist at Dresdner Kleinwort Benson, points out, UK pension funds have become price-takers, not price-setters. They have been replaced by new marginal investors, mainly US-based funds and corporate buyers. Such investors are not driven by conventional portfolio managers' attitudes to investment value. The Americans have chased up the prices of global blue chips in sectors such as pharmaceuticals, banks and (until a global economic slowdown loomed) oils. As for the corporates, the bids for MAM and Redland alone are soon to pump £5bn in cash into the UK equity market, and buybacks are important too (with Bass announcing the return of £850m yesterday). That rate of *cash injection promises more* discomfort for the bears who pay more attention to values than to investment flows.

But who would want to set prices when they are out of line with rational underlying values? It makes sense that long-term investors should back off when markets get out of line. The assumption is that one day the marginal buyers will disappear and traditional investors will regain control.

All the same, UK pension fund managers will not want to live through too many more years like 1997. The wait continues.

Falls in currency and share prices, and relaxation of takeover rules, are attracting bargain-hunters

Overseas investors eye Korean groups

By John Burton in Seoul

Creditors for bankrupt Hanbo Steel yesterday offered to sell part of the steelworks to overseas investors, who are showing increasing interest in acquiring troubled South Korean companies.

Meanwhile, Hanhwa said it was negotiating to sell its oil business to a foreign company, while Daewoo is seeking increased overseas investment in its newly-acquired subsidiary, Ssangyong Motors.

Seoul has relaxed rules on foreign takeovers under the terms of the International Monetary Fund's $57bn bail-out package. The foreign shareholding ceiling in listed companies was raised to 50 per cent last week.

The recent drop in the Korean currency and share prices has made the nation's companies an attractive bargain for foreign companies, which have previously been deterred by government barriers against takeovers.

Creditor banks for Hanbo Steel, which collapsed in January under $6bn in debts, said they would sell the company's advanced mini-mill steel facilities to one of five foreign steelmakers that have expressed interest in the project. None of the bidders was named.

The additional financing of Won2,000bn ($1.28bn) for the completion of the two steel plants and related port facilities and other infrastructure could be provided only by overseas investors because of Korea's economic problems, officials said.

State-run Pohang Iron & Steel (Posco) had earlier sought to acquire the mini-mill facilities as part of a joint Won2,000bn bid for Hanbo with Dongkuk Steel.

Posco is expected to lease Hanbo's rolling mill plant, which is already in operation, and increase its production to 2m tonnes.

Hanhwa said it was in talks to sell its oil refiner, Hanhwa Energy, to a foreign oil company.

Shell said to be interested in acquiring Hanhwa's network of petrol stations in Korea.

Hanhwa is restructuring to reduce its debts, which stood at Won9,700bn at the end of 1996 – nearly eight times equity.

Daewoo, which acquired Ssangyong Motors last week with a 53.5 per cent stake, said it planned to hold talks with Daimler-Benz on increasing the German carmaker's 2.6 per cent stake in Ssangyong. A capital injection by Daimler-Benz would help Daewoo pay the Won2,000bn in debt it assumed from Ssangyong as part of the takeover price.

Daewoo said it would offer its distribution networks and those of Ssangyong to Daimler-Benz for the sale of its cars in Korea.

Daewoo also suggested that it might approach General Motors, its former joint venture partner, with a similar deal.

Nutricia plans Indonesian takeover bid

By Sander Thoenes in Jakarta

Nutricia International, the Dutch food group, hopes to become the first overseas investor to take a majority stake in a listed Indonesian company, as bargain-hunters target the country's debt-ridden but undervalued enterprises.

Nutricia said yesterday it intended to make a friendly bid of Rp329bn ($65m) for 50.1 per cent of the shares in Sari Husada, Indonesia's largest producer of baby food.

It would be the first company to take advantage of the abolition in August of a 49 per cent ceiling on foreign stakes in listed Indonesian companies.

The deregulation had been Indonesia's first response to the slide of its stock markets and currency, which turned into a crash in recent weeks.

With the Jakarta Stock Exchange index at less than half its summer high and the rupiah down 60 per cent, the dollar value of shares in many companies has plunged. Pressed to repay short-term foreign loans, mostly unhedged, many family-owned companies have had to abandon control.

"We're looking at opportunities the likes of which we have never seen before in any Asian country," said Patrick Alexander, managing director at Peregrine, the brokerage, which hopes to close a second $130m fund dedicated to Indonesian venture capital by the end of this year.

"For the first time they will have to let in corporate investors – and with the rupiah going through the floor, we've got enormous buying power," Mr Alexander said. "People here had been in denial until as late as the end of November. Now everybody wants to talk."

Shares in Sari Husada have been stable because they were illiquid, but their value in dollar terms has fallen sharply. Nutricia said it started negotiations before the market crashed.

Tigaraksa Satria, the company which owns 74.6 per cent of Sari Husada, agreed to sell only 34.6 per cent, leading Nutricia to appeal to minority shareholders with a bid of Rp5,500, or Rp500 above the market price.

Bosch to control Kia venture

By Haig Simonian, Motor Industry Correspondent

The economic turmoil in Asia has provided its first foreign takeovers as Robert Bosch, Germany's leading automotive components group, revealed it had bought control of a South Korean joint venture with Kia, the embattled vehicle maker.

Hermann Scholl, chairman, said in an interview that Bosch had taken a controlling stake in Motor Systems and Technology, a joint venture making engine control units and sensors.

Mr Scholl declined to reveal the value of the deal. However, he said Bosch, the world's biggest independent car parts group, had stepped up its focus on Asia to be prepared for any unexpected takeover opportunities that could surface.

"We are looking at this very carefully," he said.

Separately, Alex Trotman, chairman of Ford, said his company had also become more sensitive to the growth potential in the region from unexpected acquisitions. "We're certainly alert. It's not all bad news for us."

With many Asian currencies plunging in value in recent weeks, he said: "You'd have to be asleep if you're not looking at the leverage you could have."

Hermann Scholl: prepared for takeover opportunities in Asia

Mr Trotman said Ford had not considered taking a bigger role at Kia. Combined with Mazda, the Japanese carmaker it controls, the US group owns about 18 per cent of Kia's equity.

However, Mr Trotman said that he would react immediately to consider any opportunity to get more involved in the group. If the Korean government indicated it wanted Ford to take a bigger stake, "I'd react by buying a plane ticket and go and see them to negotiate", he said.

Bosch agreed to take control of Motor Systems and Technology (MOST), established in mid-1994, by raising its stake from 40 per cent to 70 per cent.

Under the deal, agreed at the peak of Kia's crisis in late October, the Korean carmaker cut its stake from 60 per cent to 30 per cent.

Mr Scholl said he hoped the deal would allow MOST, which has so far worked only for Kia, to win business from other Korean vehicle groups.

The company, which has 180 employees, is one of five joint ventures established by Bosch in Korea since 1985.

The turmoil in Korea, where vehicle sales have fallen sharply, may create other opportunities for automotive groups, especially on the supply side. The Korean motor industry is vertically integrated, with vehicle makers owning a substantial proportion of the supply base.

Many observers believe one of the most immediate consequences of the likely consolidation among manufacturers will be a shake-out of the supply base, with company-controlled parts groups being sold off to raise cash and simplify corporate structures. This would be line with the process that has largely taken place among European carmakers.

ASIA-PACIFIC NEWS DIGEST

CSFB close to BZW Asia deal

Credit Suisse First Boston, the investment bank, is close to finalising the acquisition of parts of BZW Asia, the regional investment banking arm of Barclays of the UK, Hong Kong banking sources said yesterday.

Officials at CSFB and BZW Asia said the negotiations concerned "selected parts of BZW Asia" but they declined to comment on the financial terms of the planned deal.

BZW Asia has said it hoped to conclude a deal by the end of the year. The businesses to be sold include the company's equity capital markets division, equity derivatives, and mergers and acquisitions. CSFB is thought to be interested in BZW's investment banking operations in Singapore, Hong Kong, Taiwan and the Philippines.

The sale of the BZW businesses comes amid a broader restructuring of the Asian investment banking industry, partly prompted by the financial crises in the region. The past few weeks have seen a number of acquisitions in the sector and job cuts as banks respond to the sharp downturn in business. Neither BZW nor CSFB would comment on the implications for staff numbers. BZW Asia, which does not include the bank's Japanese or Australian operations, employs 700-800 staff across the region. CSFB has about 1,400 staff in Asia, excluding Australia.

BZW's Australian operations are being sold separately. ABN Amro of the Netherlands is close to a deal and an announcement is expected before Christmas.

■ CSFB said yesterday it would acquire the 75 per cent of First NZ Capital that it does not already own. Stephen Stonefield, chairman of CSFB Asia Pacific, said the move would enable the company to integrate fully the New Zealand investment bank into its operations.

John Ridding, Hong Kong

■ PETROCHEMICALS

Thai Olefins seeks payments halt

Thai Olefins, the petrochemical company controlled by the state-owned Petroleum Authority of Thailand (PTT), is seeking to halt principal repayments on $400m of loans, bankers said yesterday.

The company joins the growing list of Thai corporates that have sought to restructure their debts since the devaluation of the Thai baht in July. TPI, Thailand's largest petrochemical company, which holds a 6.8 per cent stake in Thai Olefins, has already halted principal repayments on $4bn in debt.

Thai Olefins' debts are primarily owed to two creditor syndicates, a domestic one led by Krung Thai Bank and a foreign one led by the Industrial Bank of Japan. Thai Olefins is being advised on its debt restructuring by Chase Manhattan Bank.

Officials said the company would run out of working capital by the middle of next year if it had to repay the debt on time. PTT, which owns 49 per cent of the company, cannot inject more capital without similar injections by minority shareholders or it would become a state-owned enterprise. *Ted Bardacke, Bangkok*

■ CORRECTION

Peregrine Investment Holdings

Owing to an error in a news agency report, the FT yesterday incorrectly stated shareholders' funds at Peregrine Investment Holdings. The correct figure for shareholders' funds at the beginning of 1997 is US$865m.

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Dresdner head to step down early

By Andrew Fisher in Frankfurt

Jürgen Sarrazin yesterday sought to end a painful period of bad publicity at Dresdner Bank by saying he would step down as chairman earlier than planned, at the end of this month.

The announcement comes after a series of allegations and admissions concerning senior board members that have embarrassed Germany's second biggest bank. Mr Sarrazin, 62, said he had taken the decision to allow the bank to make a fresh business start in the new year under his successor, Bernhard Walter, 55.

Dresdner said in September that Mr Sarrazin would step down next May after only five years at the top. The move was thought to reflect concern on the non-executive supervisory board – responsible for top personnel decisions – that Mr Sarrazin had failed to present a sufficiently positive image of the bank.

But only a week later, Dresdner was shaken by the resignation of Wolfgang Röller as head of the supervisory board over allegations that he had sought to evade taxes by sending funds to Switzerland.

He denied these but said he wanted to spare Dresdner any damage arising from the tax investigation. Since then, Hans-Günther Adenauer, a management board director, has also left over his tax affairs.

A third case emerged this week when Hansgeorg Hofmann, head of the group's investment bank, Dresdner Kleinwort Benson, admitted he had evaded taxes by keeping funds in Switzerland.

Mr Hofmann had just left the management board in order, the bank said last month, to devote his attention to running the investment bank from London. But it admitted on Sunday he had been released from main board duties after disclosing his tax problems.

These setbacks have hit Dresdner when it is performing strongly, with operating profits up 25.5 per cent in the first nine months. However, it is under pressure as a result of bank mergers in Germany, Switzerland and elsewhere. It is also striving to build its investment banking presence, especially in the US, although recent takeover talks with Donaldson, Lufkin & Jenrette, the US investment bank, did not succeed.

Analysts said the changeover at the top would at least give Dresdner the chance to consider new strategic moves under new leadership, possibly with Allianz, the German insurance concern which owns 22 per cent of its shares.

Jürgen Sarrazin: hands over chairmanship this month AP

EUROPEAN NEWS DIGEST

Schering to offer executives stock

Schering, the German pharmaceuticals group, is launching a stock option scheme for senior executives. The move is rare for Germany, although an increasing number of large companies are launching schemes to attract foreign executives used to share options.

The Berlin-based company said more than 200 executives would be asked to join the scheme. "Management will move increasingly into the position of shareholder, so that the interests of the executives will be closely linked to those of the shareholder," Schering said.

Schering said the shares would be purchased on the open market. "In this way, there is no dilution of capital for the shareholders," it said.

Hoechst, the German pharmaceuticals and chemicals group, launched a stock option scheme for top managers in September to mark its listing on the New York Stock Exchange. *Graham Bowley, Frankfurt*

■ BROKING

Solid Capital wins UK licence

Solid Capital Markets has become the first Israeli stockbroker to be granted a licence by the UK authorities to operate in London. The move is expected to lift the profile of Israeli stocks in Europe. Most of Israel's 657 public companies are listed on the Tel Aviv Stock Exchange, which suffers from a lack of liquidity, while a further 99 companies, mostly high-tech groups, have opted for a New York listing. Market capitalisation in Tel Aviv is US$47bn. Foreign investors account for 13 per cent of trading on the Tel Aviv market. *Judy Dempsey, Jerusalem*

■ AUSTRIA

Wolford profits drop 25%

Shares in Wolford, the Austrian maker of luxury tights, continued their year-long slide yesterday after management announced a 25 per cent drop in pre-tax profit to Sch119m ($9.5m) for the six months to October. The stock, once a strong performer on the Vienna exchange, dropped Sch71 to Sch763 and is now trading at almost half its peak in late January.

Fritz Humer, chairman, blamed the decline on the high costs of expansion and predicted a better result for the second half. Net income should remain around the Sch191m recorded for the year ended April 30. First-half group sales were steady at Sch830m, as growing demand in the US and Asia offset a 10 per cent drop in Austria and Germany, where a warm autumn damped customer interest. *Eric Frey, Vienna*

■ NETHERLANDS

Deloitte in VB Groep merger

Deloitte & Touche in the Netherlands, part of the Big Six global network of Deloitte Touche Tohmatsu International, has agreed a merger with VB Groep, which specialises in the public and and not-for-profit sectors. VB Groep's 54 partners will join Deloitte & Touche's 176 partners in the Netherlands. "This merger supports Deloitte & Touche's aim of reinforcing its market position in the public and not-for-profit sector," it said. *Jim Kelly, Accountancy Correspondent*

Sulzer Medica buys US spinal implant group

By William Hall in Zurich

Sulzer Medica, Europe's leading medical technology company, has made an agreed $595m offer for Spine-Tech, a fast-growing US company with a large share of the spinal implant market.

The acquisition, the first by the Swiss group since it was floated on the stock market in July, raised fears among analysts that it was overpaying for a young company with a short track record.

The announcement comes only a month after Sulzer Medica warned on profits. Its shares, which have dropped well below the SFr350 IPO price, fell nearly 7 per cent to SFr302 yesterday.

Sulzer Medica said the acquisition meant that its orthopaedics division, the biggest of its three core businesses, had entered the high-growth, high-margin segment of the orthopaedics market.

The underlying growth rate is believed to be between twice and three times as fast as the rest of Sulzer Medica's orthopaedics business.

Since the US Food and Drug Administration approved the BAK implant, Spine-Tech's principal product, in September last year, the group had sold more than $53m of the devices.

The implant involves a less invasive procedure with shorter hospital stay and more rapid patient recovery which may result in reduced treatment costs.

The stock market's negative reaction to the deal reflects conflicting views on the earnings power of Spine-Tech.

Based on Wall street estimates, Sulzer Medica appeared to be paying about 34 times 1998 earnings. However, Josef Rüegg, Sulzer Medica chief financial officer, estimated that the 1998 multiple was more like 19 times earnings.

Mark Browne, of SBC Warburg in Zurich, described the acquisition as "an aggressive deal". However, he thought the stock market had overreacted. "It takes them into an attractive high-growth sector and would allow them to leverage their European orthopaedics business in the US," he said.

Philips seeks a diet for growth

Dutch group aims to lift sales volumes in consumer electronics

"Philips is like a big hungry animal that needs feeding more and more." The analogy comes not from a critical stockbroking analyst but from Jan Oosterveld, the company's senior director for corporate strategy. He has just finished co-ordinating a review of its outlook in high-volume electronics.

His message, to be conveyed to staff this week, is that "growth is paramount" and that a market share below 10 per cent in any country or region makes profits difficult. Far from focusing on specialised high-end items, Europe's biggest consumer electronics group needs further volume growth in markets such as the US and eastern Europe as well as currently troubled east Asia.

The alternative is "constant restructuring, which is unpleasant and costly". That messy business has been preoccupying board members of the Dutch-based group, and unsettling its staff, for the 15 months since Cor Boonstra took the helm. The former Sara Lee foods executive initiated a programme of disposals and internal rationalisations designed to reverse a slide into loss.

There was to have been no public discussion of strategy until well into next year, once structures and controls had been revamped and, in Mr Boonstra's words, the "bleeders" in the business had been shed. He pledged himself foremost to shareholder value. But with much of his early agenda accomplished, he has faced a renewed slide in the Philips stock price. Having trebled since he took over, it now stands at double.

Still to be made clear is the overall corporate vision and ultimate product portfolio of a group which spans semiconductors, computer monitors, lighting, telephones and domestic appliances as well as audio-visual products and software.

But consumer electronic hardware represents a third of revenues, which reached Fl 69.2bn ($34.6bn) last year, and Mr Boonstra himself chaired the review he describes as "one of the most critical elements of the process of change".

Profitability had not come in proportion to its sales; and its Sound & Vision unit making TV sets and video recorders was a principal lossmaker. Now it is back in the black and Doug Dunn, its head, was recently given wider responsibility for a consumer products group including mobile phones and computer peripherals.

Mr Dunn says operating margins are back above 3 per cent and the return on net assets meets Mr Boonstra's 24 per cent requirement. At the same time, though, annual erosion in the selling price of its products is deepening, at about 7.5 per cent this year compared with 5 to 6 per cent in the recent past.

The division is now robust enough to withstand this and even to lead a price-cutting trend when it chooses, maintains Mr Dunn, who blames competition in Brazil rather than south-east Asia as the source of the worst downward pressures in recent months.

Philips intends to maintain the 7 per cent of sales it puts towards consumer electronics research and development, and increase its marketing commitments, currently half that proportion. At ING Barings, Steven Vrolijk says that, worldwide, "the sale of ordinary TV and video products will still be the dominant factor".

That is central to the plans of Mr Dunn. At the same time, though, the convergence of audio-visual, communications and computing functions – brought about by an industry shift from analogue to digital standards – means the division should become more closely attuned to Silicon Valley.

Philips ventured before into computers, and retreated. Mr Dunn says there is no appetite to return to "boxes on a desk". But when a home audio-visual system centred around a television screen can offer not only sound and pictures but connectivity – "Do you call that a PC? I don't know."

What is clear is that Philips intends not to centre product development on one big idea. This led to past disappointments over the V2000 video system, laser disks, and the digital compact cassette and CD-interactive formats. "We are talking about 10 different big concepts at a time, instead of one."

Over-optimistic growth expectations cost Philips Fl 1.5bn last year, warns Marcel Metze, author of two books on the company. The hunger for expansion within its product divisions remains. Mr Boonstra will have to temper the diet.

Gordon Cramb

Boeing to cut jobs at airliner unit

By Christopher Parkes in Los Angeles

Boeing, the US aerospace group which is struggling to raise output, plans to cut its commercial aircraft workforce by 10 per cent, starting late next year.

Most of the 12,000 job cuts were expected to be achieved by not replacing employees who retired or left for other jobs, although there would be some lay-offs, Phil Condit, chairman and chief executive, said yesterday.

The announcement of the plan, a delayed side-effect of the recent takeover of McDonnell Douglas, suggested production difficulties – which roused criticisms that it had cut too deeply into its payroll during the recession – are being brought under control.

Recovery from the production crisis was proceeding satisfactorily, the company said. Parts shortages, out-of-sequence work and delivery delays had improved at least as well as expected under plans drafted this year when parts of the 747 production line were shut for 20 days.

All but one of the 25 aircraft planned for completion in November had been tendered to customers on time, Boeing claimed. Seventeen had been delivered in the first half of December, and it expected to have a further 36 ready in the second half.

Overtime working had fallen from more than 20 per cent to about 17 per cent, although the factories would remain open between Christmas and new year to help meet delivery schedules.

The main trouble spot appeared to be increasing delays with the next generation 737 airliner. Ron Woodard, president of the commercial aircraft division, said the number of jobs behind schedule had risen in the past three weeks.

Most effort had been concentrated on completing the first of the new models, a 737-700 due for delivery to launch customer Southwest Airlines today. Southwest is expecting three more of these aircraft by the end of the month, and the production schedule calls for the completion of 27 by the end of the first quarter.

Boeing said the main challenge was to keep parts supplies and delays on its own production lines under control as it moved to the next phase of recovery.

Credit card sale may net AT&T $2bn

By William Lewis and John Authers in New York

AT&T's board meets today to decide which company has won the auction to buy its Universal credit card business, valued by analysts at about $2bn.

The bidders include Citicorp, the international bank based in the US, which wants to add AT&T's Universal to its portfolio of $44bn in receivables.

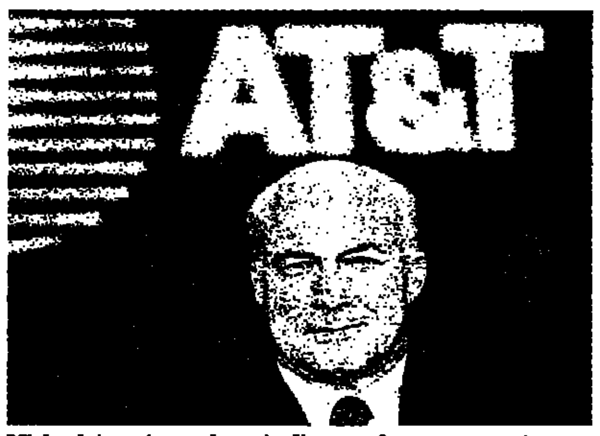
The deal comes at a time of consolidation in the credit card industry resulting from increasing competition and declining profitability. Recent deals have included the purchase of Advanta, a specialist credit card issuer, by Fleet Financial for about $500m, and the sale of Bank of New York's credit portfolio to Chase Manhattan for about $200m.

Details of the size of the bids by Citicorp and others could not be established. However, analysts said they were expecting AT&T to gain up to $2bn through the disposal.

AT&T launched its credit card business in 1990 and had early success with its no-fee guarantee, attracting 4.5m accounts in a year. But receivables fell from $14.1bn in 1995 to $13.6bn last year before returning to more than $14bn this year. It now has about 19m customers.

If Citicorp is successful with its bid, it would represent the bank's largest transaction in recent years in the US retail market.

For AT&T, the credit card sale is part of its strategy to refocus on its core telecommunications business. Michael Armstrong, AT&T's new chairman and chief executive, is said by analysts to be keen to step up the process and sell or close other non-core assets.



Michael Armstrong: keen to dispose of non-core assets

Ford warns of trade risk from low yen

By Haig Simonian in London and Richard Waters in New York

Ford Motor warned yesterday that an intensification in Japanese competition because of the low yen could trigger a return to acute trade frictions with Tokyo.

Alex Trotman, Ford chairman, said: "We're going to feel more and more pressure in western Europe and the US in 1998. The tension in trade relations will definitely build."

He warned that rising competition from Japan could prompt further increases in already high levels of marketing incentives on new vehicles in the US next year. However, he hinted that Ford would not allow imports to erode its sales.

"We'll have to do whatever it takes [to hold on to market share] – but I expect times to get more challenging if the yen stays at 130 [to the dollar] or gets weaker."

Despite the added pressures, Mr Trotman said Ford could potentially improve North American profits next year.

US demand for cars and light trucks – the decisive factor – should equal the 15.5m vehicles expected to be sold this year.

Ford would be helped by the continuing popularity of sports utility vehicles, pick-up trucks and multi-purpose "people carriers", Mr Trotman said such vehicles, which offer higher margins than passenger cars, should account for more than 50 per cent of sales in the US for the first time next year.

RJR Nabisco revamps international tobacco

By Richard Tomkins in New York

RJR Nabisco, US maker of Camel and Winston cigarettes, yesterday announced a restructuring of its international tobacco business, saying it would cut 2,600 jobs from the division's workforce of 19,000 and take a pre-tax charge of $310m to fourth-quarter profits.

It said it also planned a small restructuring of its domestic tobacco business, involving the loss of 190 full-time jobs, 200 seasonal positions and a pre-tax charge of $80m.

The combined charge of $390m is expected to translate into an after-tax charge of $310m, or 95 cents a share, in the quarter ending this month, easily wiping out the earnings of 84 cents a share previously expected by analysts and leaving the company with a loss.

RJR Nabisco also warned that it planned to reduce cigarette inventories that had built up in some international markets in the last few years, cutting fourth-quarter sales by more than $150m and operating profits by $85m.

However, the company said the restructuring would bring cost savings rising to $170m a year by 2000, generating extra resources to be invested in its fastest-growing brands. In early afternoon trading, the shares were up $⅛ at $36⅛.

RJR Nabisco's cigarette volumes have been rising rapidly in markets such as central and eastern Europe, but international tobacco profits have been hit by the strong dollar.

Record year at Goldman Sachs

By Tracy Corrigan in New York

Goldman Sachs, Wall Street's largest remaining partnership, yesterday reported pre-tax earnings of $3.01bn in 1997, the highest in its history and 16 per cent above last year.

The firm said its performance was driven by strong investment banking revenues around the world.

However, fourth-quarter earnings of $567m were below Goldman's record third quarter of $932m. Earnings are stated before compensation is paid to the firm's 200 partners.

Goldman "had a good fourth quarter, considering the market volatility which defined the trading environment," said John Thain, chief financial officer.

Fears of the impact of volatile markets in the fourth quarter have caused some analysts to downgrade earnings estimates in the financial sector. Chase Manhattan said last month that it lost about $160m in October as a result of the sharp correction in Asian and other markets.

Goldman's trading revenues in the fourth quarter fell from a high level in the third quarter, but were still "substantially positive", said Mr Thain.

He said the firm remained bullish on its Asian business, and had no plans to cut back after its recent build-up in the region, despite the impact of the financial crisis there.

"What you'll see is a change in the business mix. I don't think you are going to see the same volume of global debt and equity financing, but I do think you'll see principal investment and restructuring opportunities."

At the end of November, Goldman's headcount was 10,600, up 17 per cent on the previous year. Expenses rose faster than revenues, reaching $4.43bn compared with $3.52bn in 1996.

AMERICAS NEWS DIGEST

Lincoln National incurs charges

Lincoln National, the Indiana-based life insurer, yesterday announced two special charges against fourth-quarter results. They will cover charges incurred as a result of mis-selling pensions in the UK and to strengthen reserves for claims on some personal accident reinsurance policies written in the London market by its reinsurance arm.

However, the two charges were balanced by confirmation Lincoln National would realise a gain of $777m after tax on the sale of its stake in American States Financial earlier this year. The total impact is to increase its fourth quarter net income by $490m.

It said a charge of $173m had been taken to cover its liabilities for misleading UK consumers, and persuading them to contract out of employers' defined benefit pensions schemes. Pre-tax charges of more than $41m had been taken against earnings over the last five years, but the company said recent settlement experience suggested they needed a further substantial strengthening of reserves. It took an after-tax charge of $114m on its reinsurance operations. *John Authers, New York*

■ INFORMATION SERVICES

Provisions hurt Donnelley

R.R. Donnelley, the Chicago-based printing and information services group, is to take charges of $171m in the fourth quarter. It is to write down and sell some "non-strategic" assets, and restructure its ownership of Stream International, the software services business. Stream was formed when Donnelley merged its software operations with those of Corporate Software two years ago. Donnelley said it intended to convert its debt and equity holding in Stream into 87 per cent of the company's common stock. Stream will go ahead with an initial public offering. and Donnelley's interest will be cut to under 50 per cent at that stage. *Nikki Tait, Chicago*

■ MINERALS

Westmin raises Chilean reserves

Westmin Resources, the Canadian zinc and copper producer that has rejected one takeover offer but invited others, said yesterday its Chilean copper reserves totalled 7.4bn lb, almost double the previously announced figure. The announcement appeared to have been timed to bolster Westmin's position against a recent $530m hostile bid. Westmin has rejected as too low an offer by Boliden, the Toronto-listed company spun off earlier this year by Trelleborg, of Sweden. The company has said its C$530m (US$373m) market capitalisation does not reflect the potential of Westmin's Chilean reserves.

Scott Morrison, Toronto

■ PAPER

Georgia-Pacific warns of loss

Georgia-Pacific, the US paper and forest company, said it would post a net loss in the fourth quarter after writing off assets of its fledgling building products distribution division. Wall Street had expected the company to earn 8 cents a share, according to a poll of 15 analysts carried out by First Call, the research group. The company plans to write off a gypsum plant, other miscellaneous one-time costs and costs previously capitalized for information systems re-engineering. *Reuters, New York*

COMPANIES AND FINANCE: INTERNATIONAL

Finnish oil and power groups to merge

By Greg McIvor in Stockholm

Neste, the partly-privatised Finnish oil and petrochemicals group, and Imatran Voima (IVO), the state-owned power utility, are merging to form a powerful new alliance on the deregulated Nordic energy market.

The Finnish government – which holds stakes of 83 per cent and 95.6 per cent in Neste and IVO, respectively – yesterday said the tie-up would improve the competitiveness of the country's energy industry in the rapidly liberalising European power market.

The merger, one of Finland's biggest corporate deals, creates a group with combined annual sales of FM55.4bn ($10.4bn) and 16,000 employees.

It follows a six-month, government-led strategic review aimed at finding ways to improve co-operation between the companies.

The tie-up requires approval from the Finnish parliament and the European Commission.

Brussels has voiced concern about the domination the combined group would have over the Finnish natural gas market.

Gasum, a joint venture between Neste and Gazprom, the Russian gas giant, is the sole importer and distributor of natural gas in Finland. IVO is the country's dominant power generator.

Neste said it would tackle Brussels' reservations by selling part of 75 per cent holding in Gasum, leaving it with only a minority stake. Gasum would also stay outside the merged group.

Under the deal, Neste and IVO will form a joint holding company. The partners will operate as separate divisions but co-operate in various fields.

The prime focus will be on developing a common energy business. This will involve investments of between FM10bn and FM12bn, chiefly in natural gas projects.

Planned spending includes construction of gas-fired power plants and the international extension of the natural gas grid.

The companies hope the link-up will better enable them to exploit Finland's potential as an international hub for Russian gas supplies to the Nordic and European markets.

They said co-operation would also extend to marketing, research and development, engineering, plant operation and maintenance.

The holding company, which is to be headed by Heikki Marttinen, IVO chief executive, will be floated on the Helsinki stock exchange.

The Finnish government indicated that it would privatise part of its stake in the merged concern.

According to the proposal, the government will offer Neste shareholders shares in the new company in exchange for their stake in Neste.

Neste shares climbed FM5 to FM127.

Expected synergies were not quantified, but analysts said there was limited overlap.

Staff at both companies would be unaffected, the government said.

Imax turns focus on European expansion

By Alice Rawsthorn

Imax, the Canadian cinema group, is poised for aggressive expansion in Europe, where up to 20 of its high-tech cinemas are scheduled to open over the next three years.

The European expansion programme begins with the opening today of London's first Imax 3D cinema at the Trocadero leisure centre at Piccadilly Circus, and a similar complex at Bochum in Germany.

Over the next three years, Imax technology, which uses powerful, high-precision projectors to show life-like films shot specially, will be installed in four more German cinemas.

Two will be at complexes in Berlin run by Sony, the Japanese electronics group, and Mercedes, the German car company. Another four Imax cinemas are due to open in the UK, including two in London, one at Bournemouth on the south coast and another in Belfast.

All five UK cinemas, like most of the other European ones, will adopt Imax 3D technology, whereby viewers wear goggles which create the illusion of a three-dimensional film.

Richard Gelfond, co-chief executive of Imax, said the company had also signed a contract with Gaumont, the French cinema chain, to open up to eight complexes in France and Belgium. The first will be in Montpellier and Antwerp.

Other scheduled European openings will be in Valencia, Oslo, Dublin and Budapest. Imax is in negotiations to sell its technology to complexes elsewhere in Europe.

The flurry of Imax openings in Europe is part of the global trend for cinema operators to invest in technically advanced projection systems designed to appeal to an increasingly sophisticated audience.

It also reflects increased investment in making Imax films, 27 of which are currently in production.

At present there are about 125 Imax films, but most of these are educational pictures.

Mr Gelfond suggested that the increase in investment might also be due to the high attendance levels at established Imax complexes in Europe, some of which attract more than 1m visitors a year.

There are 24 Imax cinemas in Europe, compared with 75 complexes in the US and 15 in Canada.

Goggle-eyed: Imax cinemas specialise in 3D showings

Fund aims at LatAm media

By Raymond Colitt in Caracas

Hicks, Muse, Tate and Furst, the Dallas-based investment firm, and Venezuela's Cisneros Group, a media and telecoms conglomerate, yesterday announced a $500m fund to invest in media properties in Latin America, Spain and Portugal.

The Ibero-American Media Partners fund, which is to focus its investment activities on television and radio broadcasters as well as Spanish and Portuguese-language programming groups, aims "to form the first pan-Ibero American media network".

The fund could grow to $1bn or more, the Cisneros Group said, as limited equity partners joined or either side injected additional capital.

The fund would also consider leveraged acquisitions.

Gustavo Cisneros, chairman of the Cisneros Group of Companies, said the joint venture "will allow us to continue an aggressive campaign of investment in Ibero America".

Cisneros has stakes in media companies in Venezuela, Argentina, Chile, the Caribbean, and in Univision, the leading Hispanic television network in the US.

Hicks Muse has holdings in a number of media companies, including Chancellor Media Corporation and Capstar Broadcasting Partners, the second and fourth-largest radio broadcasters in the US.

It also has a stake in Multivision, a leading media company in Mexico.

In October Hicks Muse agreed to acquire Lin Television, an owner and operator of several US television stations, while last month it acquired United Artists Theatre Group, the second largest operator of cinemas in the US.

Austrian banking group restructures

By Eric Frey in Vienna

Bank Austria has announced a reorganisation that would bundle together its central operations with those of Creditanstalt, which it acquired a year ago.

Austria's largest banking group will embrace three wholly owned subsidiaries: Bank Austria, Creditanstalt, and Bank Austria Creditanstalt International.

Bank Austria and Creditanstalt will pool their foreign operations in BACI, but will keep their brand identities separate in the domestic market. Bank Austria will take over the treasury, foreign exchange and securities trading activities from Creditanstalt, which will in effect become a domestic retail arm of the group. All investment banking activities were merged earlier this year.

The combined treasury is expected to be headed by Gerhard Novy, treasurer of Creditanstalt. Alarich Fenyves, who heads Creditanstalt's foreign operations, is tipped as the new chairman of BACI.

This would give two Creditanstalt executives top posts in the combined group and help appease anger within Creditanstalt over the takeover by Bank Austria.

Bank Austria also plans to convert the 2 per cent of Creditanstalt shares that it does not yet own into its own equity by August 1998. Bank Austria acquired 70 per cent of the voting shares in the second largest bank from the government in January and made a voluntary conversion offer to minority shareholders in September, which was widely accepted. A quarter of all Bank Austria shares are now held by former Creditanstalt shareholders.

In the medium term, Bank Austria plans to eliminate its preference shares and participation certificates and keep only one class of common shares on the Vienna bourse, said Gerhard Randa, chairman. "We are fully on course to our stated objective of creating the clearest possible share structure for our shareholders," he said.

Bank Austria is barred from a full merger with Creditanstalt for five years by a political agreement.

Robert Fleming expands in Egypt

By Mark Huband in Cairo

Robert Fleming Securities' Egyptian subsidiary yesterday became the country's fourth largest brokerage with the purchase of El-Rashad Securities. The move will further concentrate brokerage in the hands of the market leaders.

Fleming Mansour, established in September as an asset management and investment banking joint venture with one of Egypt's largest privately-owned companies, bought 99 per cent of the shares in El-Rashad, which has 4 per cent of the Egyptian brokerage market.

The move is the first of its kind since international companies began seeking local partners in Egypt. The new company, to be called Fleming Mansour Securities, aims to become the main competitor to Egypt's leading brokers. EFG-Hermes and Intercapital Securities each control up to 25 per cent of the market.

Fleming Mansour will look to increase its market share to about 20 per cent, in a sector in which 126 brokerage companies operate.

El-Rashad has handled trade valued at E£1.2bn ($353m) this year, and enjoys a reputation for transparency in what can be an opaque market.

For Fleming, the deal is a first step towards creating a region-wide brokerage operation which it expects will extend into other North African markets and the Middle East.

Pressure is now mounting for the Mansour Maghraby group, which owns 50 per cent of the shares sold in El-Rashad, to sell its 20 per cent stake in the new company's rival Intercapital Securities, of which it was a founder.

"There's a big conflict of interest and we will ask them to exit the partnership," said Ahmed El-Helw, Intercapital managing director.

ING Barings, which has a 30 per cent stake in Intercapital, had considered buying the Mansour shares, for which 12 outside offers have been made. However, it appears likely the shares will be bought by Commercial International Investment Company, which already has a 30 per cent stake in Intercapital.

CONTRACTS & TENDERS

PERSONAL

In initial public offerings, Morgan means more performance

More stability through targeted distribution

The ten largest U.S. IPOs of 1997 ranked by aftermarket turnover
(through 12/2/97)

	$MM	*% Turnover on 1st day*	*Rank*	*Bookrunner*
Security Capital Group, Inc.	**$632**	**19%**	**1**	**J.P. Morgan**
Boston Properties, Inc.	785	25	2	Merrill Lynch/Goldman Sachs
CIT Group Holdings, Inc.	**978**	**31**	**3**	**J.P. Morgan**
Hartford Life, Inc.	650	35	4	Goldman Sachs
Hertz Corp.	**480**	**38**	**5**	**J.P. Morgan**
Santa Fe International Corp.	998	41	6	Goldman Sachs
Galileo International, Inc.	784	50	7	Morgan Stanley
Equity Office Properties Trust	525	50	8	Merrill Lynch
Nationwide Financial Services	483	56	9	Credit Suisse First Boston
Polo Ralph Lauren Corporation	767	68	10	Goldman Sachs

Sources: Bloomberg, EquiDesk

Through the first 11 months of 1997, J.P. Morgan managed *three of the top ten initial public equity offerings* by U.S. issuers, and was the fourth-ranked lead manager for IPOs of all sizes. Issuers choose J.P. Morgan to be bookrunner on their IPOs because they know we offer more.

More emphasis on developing long-term shareholders, not short-term investors. As a result, as the chart indicates, more stability after the issue has been launched. More access to a unique group of sophisticated high net worth investors, and *through a special arrangement with Charles Schwab & Co., Inc.*, access to an extensive national network of active retail accounts.

No firm works harder than we do to make our clients' offerings successful. For more information about how we can help make your IPO a success, please contact your J.P. Morgan relationship manager.

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All of these securities have been sold. These announcements appear as a matter of record only.

Warning of job cuts in US as sales fail to reach targets

Danka shares tumble 57%

By Charis Gresser

Shares in Danka Business Systems, the photocopier distributor, collapsed yesterday from 510p to 217¼p, a fall of 57 per cent, as the company warned it would fail to hit sales targets for the third quarter.

This is the second shock the company has delivered to the market in 18 months. In summer last year, the shares fell 28 per cent in one day on a profits warning. At their peak in May 1996 the shares traded at 835p, a ten-fold increase in four years.

Yesterday, the company said revenue for the third quarter was expected to be £30m ($49.5m) short of its projections. Analysts downgraded their annual profit forecast from £106m to £75m.

Martin St Quinton, Danka's corporate vice president, said: "This will take us a year to put right. It will be this time next year before we are generating the turnover and profits the market expected us to make this quarter."

The problem emerged as Danka sought to integrate last year's £438m acquisition of Kodak's distribution business.

Two months ago, the company's chief executive, Mark Vaughan-Lee, said the deal was still on target to deliver £60m of annual savings. Yesterday Mr St Quinton said the seriousness of the situation had only become apparent when sales in November were $25m below forecasts.

"The management team underestimated the complexity of the integration and overestimated how quickly it could realise the financial benefits. Blame lies full square with the management. We can't blame the market or the weather".

He said that as far as he knew there had been no calls from shareholders for management to resign.

He added that the problem was "purely a question of trying to merge two different sales forces together. A lot of salesmen don't know what their commission structure is. A lot of people have new managers and new locations to move to. All this has had a pretty disastrous effect on sales."

Mr Doyle said: "I am extremely disappointed in the gap in our expected third quarter results."

The company also announced that it would cut 1,000 jobs, mostly in the US. The cuts will affect sales support, administration and management staff. It has already announced 1,000 job cuts since its Kodak acquisition, out of a total 22,000 workforce.

Danka is taking an exceptional charge of £12.6m in the third quarter, of which £6.6m will go on redundancy payments and £6m on penalty payments to Kodak because it will be taking on less equipment than anticipated.

Danka is the world's largest independent photocopier distributor.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Dividends: Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Anite	6 mths to Oct 31	78.9	(103.5)	0.526L♠	(63.5L♠)	nil	(27.4L)	nil	-	nil	-	nil
Aberdeen Asset	Yr to Sept 30	22.3	(19.6)	3.59♠	(6.08♠)	2.64	(5.08)	2.5	Feb 4	2.2	3.75	3.2
Care UK	Yr to Sept 30	27.6	(21.7)	12.3♥	(3.52)	25.89†	(6.79)	0.85	Feb 6	0.67	1.25	1
Caspian	Yr to June 30 ✠	22.8	(1.88)	6.23L♥	(1.12L)	2.27L†	(1.09L)	-	-	-	-	-
Computerland UK ϕ	6 mths to Oct 31	10.3	(7.66)	0.398	(0.199)	5.68	(-)	0.65	Feb 11	-	-	-
Euclidian	6 mths to Sept 30	-	(-)	1.41	(0.537)	3.95	(1.56)	2	Jan 27	2	-	2
First Choice	Yr to Oct 31	1,021	(1,013)	15.4♠	(10♥)	3.7	(2.1)	1.9	Apr 1	1.4	2.8	2.8
Golden Rose	Yr to Sept 30	3.02	(2.26)	0.987L	(0.258♥)	6.9L	(1.9)	-	-	-	-	-
Greenalls	Yr to Sept 26	1,142	(1,152)	137.7♠	(117.4♠)	35.86†	(32.05)	10.01	Feb 27	9.18	16.71	15.4
Hiscox Select	6 mths to Sept 30	-	(-)	0.81	(0.627)	1.9	(1.4)	1.5	Jan 13	1.3	-	11.3#
Kenwood	6 mths to Oct 3	81.5	(97.6)	2.2	(3.29)	3.6	(4.9)	nil	-	3.25	-	3.25
Kern River ϕ	Yr to Sept 30	0.3	(0.057)	0.041L	(0.074L)	0.37L†	(0.82L)	-	-	-	-	-
Regina	Yr to Aug 31	1.25	(1.44)	0.095L	(0.132L)	0.42L	(0.59L)	-	-	-	-	-
Securicor	Yr to Sept 30	1,354	(1,255)	31.4♠	(107.4♠)	2.7	(11.6)	1.35	Apr 3	1.204	1.74	1.558
Toad	6 mths to Sept 30	2.88	(2.71)	1.12L	(2.46L)	4.15L†	(14.3L)	-	-	-	-	-
Universal Salvage	6 mths to Oct 31	37.4	(26.1)	1.02	(2.31)	2.46	(5.52)	1.65	Feb 11	1.65	-	5.2
Utilitec	6 mths to Oct 31	23.8	(2.27)	2.2	(0.042L)	2.7†	(0.27L)	0.4	Jan 19	-	-	-
Zergo ϕ	6 mths to Oct 31	5.37	(4.67)	0.078	(0.185)	0.3L	(0.5)	-	-	-	-	-

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Electra	Yr to Sept 30	640.04	(522.13)	24.5	(18.5)	14.18	(10.68)	5.2§	Feb 23	4.5	9.7§	8.4
First Ireland	6 mths to Sept 30	252.7	(162.68)	0.41	(0.543)	1.19	(1.72)	-	-	-	-	2.1
F&C Smaller	6 mths to Oct 31	215.55	(201.81)	2	(1.4)	1.91	(1.34)	1	Jan 23	0.88	-	2.6
I&S Optimum Income		-	(-)	-	(-)	-	(-)	1.8♦	Feb 2	-	-	-
Jupiter Split	Yr to Dec 31	-	(-)	-	(-)	-	(-)	4.13	Jan 30	3.62	7.75	7.24

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. ✠Pro forma; comparatives for 12 months to December 31 1995. ϕAim stock. #For 15 months. §Excludes 0.55p special. ♦Second interim; makes 3.6p to date.

Shareholders to get £850m from Bass

By David Blackwell

Bass is to return £850m ($1.4bn) to shareholders next year following its second big disposal this week. The figure represented about 11 per cent of the group's equity at Monday's close.

Yesterday, the brewing and leisure group sold the bulk of its tenanted pub estate – more than 1,400 pubs – to a private venture for £563.7m cash. The deal followed Monday's £279m sale of its 130-strong Gala chain of bingo clubs.

Two food retail entrepreneurs are behind the pub purchase – Hugh Osmond, a founder of Pizza Express, and Roger Myers, who built up Pelican Group, which owns Café Rouge, before selling it to Whitbread for £133m last year. Both are investing several million pounds.

They are backed by BT Capital Partners Europe, the private equity arm of Bankers Trust, which said it would probably consider flotation in two or three years. Bankers Trust and Morgan Stanley are providing £455m of senior debt, including a revolving facility.

The deal puts Mr Osmond among the leading operators in the tenanted pub sector. Last month, Grovebase Properties, which is backed by Mr Osmond and other private investors and is advised by Morgan Stanley, paid about £150m for 845 pubs from Phoenix Inns, owned by Nomura, the Japanese investment bank.

Nomura itself was among contenders seeking to buy the Bass tenancies, but it is understood to have offered £100m less than Mr Osmond's venture.

Mr Osmond said his combined pubs would be buying half a million barrels of beer a year. In the short term, however, the companies would be kept separate as the Phoenix pubs were not tied tenancies.

His team would look at the Bass tenancies from the point of view of operators rather than landlords. Between £10m and £15m had been set aside to offer tenants help with investment to drive their businesses forward.

Sir Ian Prosser, chairman of Bass, said the group's focus had shifted on to the branded sector of the pub business. The company would remain financially extremely strong after returning the cash to shareholders, and would still be capable of spending up to £2bn on an acquisition.

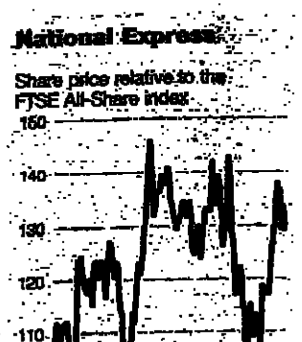
Analysts said Bass had obtained a full price for the pubs, but the share buy-back suggested no acquisitions were imminent. "Bass is good at selling things but not very good at buying them," said one.

The pubs included in the deal had a net book value of £441m at the end of September and generated operating profits last year of £67m.

Lex, Page 18

LEX COMMENT

Natl Express



Predictably enough, National Express has emerged from the Monopolies and Mergers Commission pretty much as it went in. After all, the original decision of Margaret Beckett, trade and industry secretary, to overrule the Office of Fair Trading and despatch National Express to the MMC was largely symbolic: it was an early opportunity to score political points by showing Labour took the consumer seriously. National Express's acquisition of ScotRail did indeed raise real competition questions. But given that the OFT was already proposing to address these by forcing National Express to sell its small Scottish coach business it was never easy to see quite what else the MMC was meant to look at. That the MMC has ended up following the OFT's recommendation on Scotrail to the letter underlines the futility of its inquiry. Much the same is true of its inquiry into Central Trains. National Express does have a big bus business in the West Midlands, but since the local passenger authority fixes train times and fares it was always hard to see how National Express could end up fleecing passengers.

Moreover, launching two MMC inquiries was expensive both for the taxpayer and National Express, whose management suffered a tedious summer and autumn complying with competition authorities. But, longer term, that will be a small price to pay if diversified transport operators can develop their businesses without excessive intervention from the authorities.

NEWS DIGEST

Merrill Lynch has 61% of MAM

Merrill Lynch, the US investment bank, has won acceptances for 61 per cent of Mercury Asset Management, the UK's leading pension fund manager, it announced yesterday.

Analysts expressed some surprise that the group had not received unconditional support – or more than 90 per cent – by Monday's first deadline for its £3.1bn ($5.11bn) cash offer. But Jane Ageros, director of marketing at Merrill Lynch, said: "We expect it to go unconditional shortly."

The bank had also bought some 4.4m shares in the company, making a total holding yesterday of 64 per cent.

Merrill Lynch received acceptances from investors holding 112m shares – or 61.4 per cent of the company.

Jane Martinson

Cellnet worth less to Securicor

Rising investment and acquisitions by Cellnet, the mobile phone operator, are eroding its value to Securicor, the security group, according to analysts.

Neither Securicor, which owns 40 per cent of Cellnet, nor British Telecommunications, which owns the rest, received a dividend this year. Last year, Cellnet paid Securicor £17.3m in dividend. Analysts said the build up of debt within Cellnet, could reduce the value of Securicor's stake from £1.6bn to £1.2bn.

The suspension of Cellnet dividends was revealed as Securicor announced pre-tax profits for the year to September 30 of £31.4m, depressed by £70m of exceptional items, including a loss on disposals and a write-down on a software project. Last year, Securicor made £107.4m in pre-tax profits. Securicor's share in Cellnet's profits moved up from £76.6m to £79m.

Two years ago, the Department of Trade & Industry prevented Securicor from selling its Cellnet stake to BT.

Charis Gresser

First Choice boosts board

First Choice, the UK's third largest tour operator, yesterday made boardroom changes to strengthen its strategic development capability as it predicted a shake-up in the travel industry next year.

Ian Clubb, chairman, said the imminent publication of a Monopolies and Mergers Commission report into competitiveness in the travel industry was likely to lead to consolidation and throw up opportunities.

He spoke as Peter Long, managing director since November 1996, reported a 54 per cent rise in pre-tax profits to £15.4m ($25.4m) in the year to October 30, including a net exceptional loss of £6.6m. Exceptional items included a loss of £8.6m for accounting errors.

Lance Moir, finance director, is to become director of planning and business development, a newly created job. He is replaced by David Howell, former finance director at Central Transport Rental.

Scheherazade Daneshkhu

Black takes Ferrosan UK

Peter Black Holdings is bolstering its vitamins, minerals and health supplements business by acquiring Ferrosan UK from its Danish parent for £35m ($57.8m).

The purchase, to be financed by a placing, cash and new borrowing, will double Peter Black Healthcare's share of the £230m a year market for diet supplements to 16 per cent. The market is estimated to be growing at about 10 per cent a year.

Peter Black is raising £18.5m gross through a placing of 5m shares at 370p, arranged by NM Rothschild. The shares rose 7½p to 389p.

Andrew Davis

TI buys marine product line

TI Group's John Crane Marine division is paying $4.2m to buy the marine seal product line of EG & G of the US. The line consists of hull, pump and torpedo seals used by the US Navy's submarine fleet.

Ex-Volvo chief to chair CU

By Christopher Brown-Humes

Commercial Union, the UK composite insurer, yesterday announced that Pehr Gyllenhammar, the Swedish businessman best known for his 22 years at the head of Volvo, would be its next chairman.

He will immediately become deputy chairman of the group, before succeeding Nicholas Baring as chairman at the annual meeting in April.

The appointment underscores CU's increasingly international culture, with more than 70 per cent of its business outside the UK.

However, the company dismissed suggestions that it might be seeking to use Mr Gyllenhammar's European contacts to line up a continental merger. "We already have a strong European presence," said Mr Baring. He said Mr Gyllenhammar's international experience, in particular his strong European credentials, fitted well with Commercial Union's.

Mr Gyllenhammar, 62, said the chairmanship would be his most substantial role since his resignation as head of Volvo in the wake of its failed merger with Renault of France in late 1993. He expects to spend at least two days a week at the company, with his other main focus on his work as a senior adviser to Lazard Freres, the merchant bank. He is also a non-executive of Pearson, which owns the Financial Times.

"I believe I have been appointed because of my knowledge of the financial world and my international perspective," Mr Gyllenhammar said. Before Volvo, he was chief executive of Skandia, Sweden's leading insurer.

Mr Gyllenhammar's fee is expected to be in line with Mr Baring's, who also works two days a week, and received £120,000 ($198,000) last year.

Inflation data lift Treasuries

GOVERNMENT BONDS

By John Labate in New York and Simon Davies in London

Government bond markets weakened yesterday in lacklustre trading, despite the impetus of a benign set of inflation data in the US.

Investors had the excuse of the impending Federal Reserve meeting on US interest rates to stay on the sidelines. The announcement that US interest rates would remain unchanged came long after the European markets closed, but it caused little surprise in the US.

US TREASURIES, prior to the Fed statement, responded to the release of several new economic reports. The benchmark 30-year Treasury bond rose $\frac{1}{32}$ to $102\frac{1}{32}$, sending the yield to 5.967 per cent.

Among shorter-term issues the 10-year note slid $\frac{1}{32}$ at $102\frac{2}{32}$, yielding 5.782 per cent, while the two-year note fell $\frac{1}{32}$ at $99\frac{3}{4}$, yielding 5.692 per cent. The Federal Funds rate was at 5.5 per cent. The decision from the Fed's Open Market Committee had little immediate effect on bond prices.

The morning bond market was greeted with more evidence that consumer inflation remains subdued. The consumer price index inched up 0.1 per cent in November, a lower rate than analysts had expected.

In a separate release, housing starts rose a surprising 0.8 per cent last month. Real earnings, also reported yesterday, came in as expected with a 1.4 per cent rise.

Analysts were confident that the recent low-inflation figures, along with recent turmoil in Asian markets, would be enough to keep interest rates on hold.

"Given the lack of inflationary pressures, we expect the Fed to remain on hold in the near term and to eventually ease monetary policy towards the middle of next year," said Cheryl Katz, senior economist at Merrill Lynch. Lower prices on goods imported from Asia are expected eventually to add to the current low-inflation environment in the US.

UK GILTS ended six days of straight gains, with the March contract settling $\frac{1}{32}$ lower at $121\frac{13}{32}$, having hit $121\frac{27}{32}$ earlier in the day. Trading was a little more active, with about 51,000 contracts traded.

But as one trader said: "We're not seeing huge flows of business. There remains a slight bias to the positive, but there are not many big trades going through."

The government released public sector borrowing requirement figures for November. At £2.3bn, the number was marginally above expectations, but the figures had little impact on the market, and the spread against bunds remained unchanged at 109 basis points.

Kevin Adams, gilts strategist at Barclays Capital, said: "We are trapped into a narrow range of 105 to 115 basis points against the bund, but gilt investors are cautiously optimistic."

There was a further positive shift in the yield curve, as investors bought short-dated gilts on the back of anecdotal evidence of weak retail sales in the lead-up to Christmas. Retail sales figures will be released this morning.

GERMAN BUNDS had edged higher during the morning, but the lacklustre opening on Wall Street left the March contract in London down 0.09 ticks to settle at 104.53. Volumes fell below 100,000 contracts.

The market took little encouragement from the latest Ifo institute survey, despite indications of weakening business confidence.

Sonja Gibbs, senior market strategist at Nomura International, said: "Ifo is a very good leading indicator, and it points to a weak first quarter in Germany."

She expects to see some steepening of the yield curve, with any buying concentrated at the short end. The Bundesbank Council holds its fortnightly meeting on Thursday, but it is not expected to move on rates.

ITALIAN BTPs were buoyed by expectations of an interest rate cut at the end of the week, or early next week. The March contract in London bucked the trend, rising 0.01 to 115.53 and the spread against bunds narrowed to 44 basis points. However, SPANISH BONOs gave up most of Monday's rate cut-inspired gains, settling 0.09 lower at 105.80.

There was significant activity in emerging markets debt, encouraged by the recovery in the Korean won and Moody's decision to upgrade Bulgaria's sovereign rating. Brazil's "C" bonds, one of the most liquid emerging market issues, led the way. By 1pm New York time, the bonds were being bid $1 higher at $74.875.

Argentina taps local market for $2bn loan

By Ken Warn in Buenos Aires

Argentina has secured a $2bn three-year syndicated loan from 11 banks operating in the local debt market. With other funds already secured, the loan means Argentina has covered all but $1.5bn of its $3.9bn financing needs for the first quarter of next year.

The lenders are the Argentine and a group of international banks which act as market-makers for local Treasury instruments. They include Banco de Galicia, ING Bank, HSBC Banco Roberts, BankBoston and Citibank. The loan will be 70-75 per cent in dollars, with the remainder in Argentine pesos.

Argentina turned to the local market-makers after separate negotiations for a syndicated loan from international banks foundered as a result of the global market turmoil in late October.

Despite the market volatility, Argentina has since made two forays into the international bond markets, including an innovative $500m "adjusted spread" bond launched last week.

Debt service alone will be payable in the first two years, with the principal to be repaid in 12 instalments over the third year. However, Argentina is leaving open the option of extending or restructuring the loan if market conditions allow.

Interest will be variable, fixed at a level set by a Central Bank survey of average deposit rates plus 325 basis points, or by the results of the latest auction of 91-day Treasury bills plus 100 basis points, whichever is the higher.

CAPITAL MARKETS NEWS DIGEST

Strong demand for IEC yankee

Israel Electric Corporation, the state-controlled electricity utility, yesterday closed a $435m yankee bond issue, nearly one-third more than initially planned because of high demand. Yankee bonds are issued in the US domestic market by foreign borrowers.

Yesterday's transaction is an attempt by IEC to raise $1bn by the end of next year as part of an investment programme requiring an annual $1.5bn until 2002. It is the fifth time in 12 months that IEC has issued bonds, which have been targeted mainly at US pension and mutual funds, as well as Japanese investors. The latest offering, however, was the first since the market turmoil in south-east Asia.

"Investors are looking for stability, good ratings and the ability to pay back debt," one analyst said. "By emerging market standards, Israel has a very good credit rating."

IEC is rated A- and A3, respectively, by Standard & Poor's and Moody's.

The latest bond issue was split into two parts: $125m of 10-year bonds paying a coupon of 7.10 per cent, and $300m of 30-year bonds paying of 7.75 per cent.

Lehman Brothers, lead manager, said the high demand for the securities was "a vote of confidence" for IEC.

Judy Dempsey, Jerusalem

■ DEVELOPING COUNTRIES

OPIC backs $300m water fund

OPIC, the US export credit agency, yesterday gave its support to a $300m fund described as the first to invest exclusively in improving water supplies in developing countries.

The fund, announced yesterday, is being organised by Aqua International, a private company based in San Franciso with backing from Chase Capital Partners, a subsidiary of Chase Manhattan Bank.

It will seek to tap into a growing market for privatised water services in developing countries, with an initial focus on Latin America and Indonesia rather than poorer areas which are less advanced on the road to water privatisation.

George Muñoz, president of OPIC, which will guarantee two-thirds of the fund, said that "with a majority of the world's population living without adequate sanitation", the fund would address a significant "human need".

It would also provide business opportunities for US water and technology companies in a market dominated by French and UK rivals. But William Reilly, the former US Environmental Protection Agency chief who will head the fund's management team, said investments would not be confined to projects involving US companies.

Leyla Boulton, Environment Correspondent

Comments and press releases about international capital markets coverage can be sent by e-mail to international.companies@ft.com

Sterling's fall helps World Bank issue

INTERNATIONAL BONDS

By Samer Iskandar

The World Bank was the most active borrower in a quiet market yesterday, tapping the sterling and French franc sectors simultaneously.

The sterling-denominated five-year notes were mainly aimed at retail investors, although the issue size of £300m also attracted some demand from institutions.

Priced to yield 24 basis points over gilts maturing in December 2003, the bonds offered a spread of 8 basis points over the UK yield curve – or 2 basis points less than European Investment Bank issues with a similar maturity.

"We saw good sales, although this is not the time of year when issues sell out," said Dresdner Kleinwort Benson, lead manager.

Demand was bolstered by sterling's fall since Monday, which made the bonds cheaper to investors from continental Europe.

Sales to retail investors are slower than placement among institutions, which buy larger blocks of paper.

Syndicate managers expect sterling to be a popular sector among investors after the New Year.

"For yield purposes, it offers the best value in Europe," said one.

ABN Amro, the Dutch bank, confirmed it had closed its $5.5bn Loop Funding securitisation. The deal, the largest securitisation of corporate bonds to date, will enable the bank to re-allocate capital to more profitable activities. The assets used as collateral consist of US corporate loans denominated in dollars.

● Bulgaria's country ceiling for foreign currency long-term debt was raised yesterday by Moody's, the US credit rating agency.

As a result, the rating of dollar-denominated Bulgarian bonds rose to B2, while the ceiling for long-term bank deposits reached B3.

"Bulgaria's credit risk has improved since mid-1997 with the election of a reformist government and the introduction of a currency board," the agency said. "Inflation has fallen from over 240 per cent in February to 0.5 per cent in November [and] foreign exchange reserves have grown to above $2.5bn from a low of below $500m."

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
■ STERLING							
World Bank	300	6.50	99.349R	Jan 2003	0.25R	+24(6½Dec03)	Dresdner KB
■ FRENCH FRANCS							
World Bank‡	1bn	(a)	99.84	Jan 2009	0.35	-	Société Générale
■ GUILDERS							
ING Bank	1bn	5.50	99.354	Jan 2008	0.375	+27(i)	ING Barings

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ‡ Floating-rate note. R: fixed re-offer price; fees shown at re-offer level. a) Tec-10 -85bp. i) Over interpolated yield.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

Dec 16	Red Date	Coupon	Bid Price	Bid Yield	Day chg yield	Wk chg yield	Month chg yld	Year chg yld
Australia	04/00	7.000	103.3486	5.44	+0.04	+0.20	+0.46	-0.70
	10/07	10.000	128.3101	6.08	-	-0.19	+0.13	-1.24
Austria	09/99	7.000	104.2000	4.44	-0.02	-0.07	-0.11	+0.63
	07/07	5.625	101.8000	5.37	+0.01	-0.11	-0.27	-0.52
Belgium	01/00	4.000	99.1700	4.42	+0.02	+0.14	+0.07	+1.11
	03/07	6.250	105.8900	5.42	-	-0.12	-0.30	-0.52
Canada	09/99	4.750	99.4400	5.09	+0.04	+0.48	+1.07	+0.74
	06/07	7.250	111.2000	5.68	+0.01	-0.04	+0.25	-0.96
Denmark	12/99	6.000	102.6500	4.56	-	-0.17	-0.19	+0.39
	11/07	7.000	109.7300	5.69	+0.01	-0.18	-0.40	-1.00
Finland	01/99	11.000	107.1140	4.07	-0.05	-0.12	-0.27	+0.22
	04/06	7.250	111.7570	5.45	+0.01	-0.09	-0.33	-0.96
France	01/00	4.000	99.3800	4.32	+0.01	-0.03	-0.05	+0.77
	10/04	6.750	109.7900	5.02	-	-0.13	-0.27	-0.20
	10/07	5.500	101.5700	5.29	+0.01	-0.11	-0.30	-0.50
	10/25	6.000	102.3800	5.82	-0.01	-0.10	-0.36	-0.94
Germany	09/99	4.000	99.7400	4.15	+0.01	-0.09	-0.06	+0.73
	11/04	7.500	113.4400	5.13	-	-0.07	-0.19	-0.33
	07/07	6.000	105.1500	5.29	-	-0.11	-0.29	-0.52
	07/27	6.500	109.9000	5.86	+0.01	-0.10	-0.33	-0.87
Ireland	04/99	6.250	101.4500	5.03	-0.05	-0.20	-0.43	-0.90
	08/06	8.000	116.2000	5.58	-0.01	-0.23	-0.49	-1.15
Italy	05/00	6.000	102.3100	4.96	+0.01	-0.12	-0.36	-1.45
	05/02	6.250	103.9300	5.24	+0.02	-0.13	-0.33	-1.59
	07/07	6.750	108.0200	5.65	-0.01	-0.12	-0.40	-1.88
	11/26	7.250	114.9200	6.14	-0.01	-0.12	-0.46	-1.93
Japan	03/00	6.400	112.8800	0.60	+0.01	+0.11	+0.19	-0.13
	12/02	4.800	117.1200	1.25	+0.09	-0.03	+0.03	-0.54
	09/05	3.000	109.4600	1.69	+0.01	-0.05	-0.01	-0.74
	09/17	3.000	107.3900	2.52	-	-0.01	+0.02	-0.73
Netherlands	11/99	7.500	105.6200	4.36	+0.02	-0.01	-0.01	+0.94
	02/07	5.750	103.4000	5.26	+0.01	-0.12	-0.30	-0.50
New Zealand	02/00	6.500	97.8713	7.60	+0.33	+0.33	+0.65	+0.60
	11/06	8.000	105.0547	7.12	+0.20	+0.16	+0.46	-0.29
Norway	01/99	9.000	104.9100	4.38	-0.01	+0.03	-0.11	-0.33
	01/07	6.750	103.9500	5.47	+0.01	-0.09	-0.31	-0.99
Portugal	03/99	8.500	104.2394	4.79	-	-0.03	-0.27	-1.34
	02/07	6.625	106.8119	5.65	+0.01	-0.12	-0.33	-1.24
Spain	07/99	7.400	104.2146	4.60	-	-0.05	-0.14	-1.24
	01/07	7.350	112.5143	5.59	+0.01	-0.11	-0.32	-1.35
Sweden	01/99	11.000	106.0390	5.08	+0.02	-0.12	+0.23	+0.36
	08/07	8.000	114.4470	5.93	+0.02	-0.18	-0.35	-0.95
Switzerland	03/00	5.000	106.4500	2.01	+0.02	+0.23	-0.03	-0.08
	06/07	4.500	109.4000	3.33	+0.01	-0.16	-0.23	-0.56
UK	08/99	6.000	98.7344	6.82	-0.03	-0.12	-0.31	+0.27
	11/04	6.750	101.0375	6.40	-	-0.14	-0.34	-1.22
	12/07	7.250	107.0938	6.28	+0.02	-0.13	-0.37	-1.34
	06/21	8.000	121.3072	6.25	+0.05	-0.09	-0.29	-1.50
US	10/99	5.625	99.8670	5.70	+0.01	-0.13	-0.21	-0.10
	11/04	7.875	111.0800	5.80	-0.01	-0.15	-0.09	-0.31
	08/07	6.125	102.5160	5.78	+0.01	-0.16	-0.06	-0.59
	08/27	6.375	104.0750	6.02	-	-0.16	-0.11	-0.62
ECU	01/00	4.000	98.6500	4.66	+0.01	-0.05	-	+0.63
	04/07	5.500	100.5900	5.41	+0.01	-0.12	-0.34	-0.74

London closing. *New York mid-day. Source: Interactive Data/FT Information. Yields: Local market standard/Annualised yield basis. Yields shown for Italy exclude withholding tax at 12.5 per cent payable by nonresidents.

10 YEAR BENCHMARK SPREADS

Dec 16	Bid Yield	Spread vs Bunds	Spread vs T-Bonds
Australia	6.08	+0.79	+0.30
Austria	5.37	+0.08	-0.41
Belgium	5.42	+0.13	-0.36
Canada	5.68	+0.39	-0.10
Denmark	5.69	+0.40	-0.09
Finland	5.45	+0.16	-0.33
France	5.29	-	-0.49
Germany	5.29	-	-0.49
Ireland	5.58	+0.29	-0.20
Italy	5.65	+0.36	-0.13
Japan	1.69	-3.60	-4.09
Netherlands	5.26	-0.03	-0.52
New Zealand	7.12	+1.83	+1.34
Norway	5.47	+0.18	-0.31
Portugal	5.65	+0.36	-0.13
Spain	5.58	+0.29	-0.20
Sweden	5.98	+0.69	+0.20
Switzerland	3.33	-1.96	-2.45
UK	6.28	+0.99	+0.50
US	5.78	+0.49	-
ECU	5.41	+0.12	-0.37

Source: Interactive Data/FT Information. London closing. * New York closing. Annualised yield basis.

EMERGING MARKET BONDS

Dec 16	Red date	Coupn	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd vs US
■ EUROPE								
Croatia	02/02	7.000	BBB-	94.9229	8.46	-0.24	+0.32	+2.71
Poland	07/04	7.125	BBB-	100.3835	7.05	-0.20	-0.07	+1.29
Russia	06/07	10.000	BB-	90.7500	11.63	+1.09	-1.15	+5.85
■ LATIN AMERICA								
Argentina	09/27	9.750	n/a	92.7000	10.55	+0.52	-1.06	+4.58
Brazil	05/27	10.125	BB-	90.9500	11.18	+0.40	-1.38	+5.21
Mexico	05/26	11.500	BB	116.0000	9.80	-0.12	-0.73	+3.84
■ ASIA								
China	07/06	7.750	BBB+	104.9634	6.95	+0.05	-0.12	+1.18
Philippines	10/16	8.750	BB+	88.7045	10.10	+0.20	-0.32	+4.24
Thailand	04/07	7.750	A-	91.1600	9.19	-0.06	-1.03	+3.41
■ AFRICA/MIDDLE EAST								
Lebanon	07/00	9.125	BB-	102.9409	7.80	+0.05	-0.09	+2.09
South Africa	10/06	8.375	BB+	102.7054	7.93	-0.04	-0.20	+2.16
Turkey	09/07	10.000	B	99.3079	10.10	-0.08	-0.25	+4.32
■ BRADY BONDS								
Argentina	03/23	5.500	BB	72.1330	8.71	-0.14	-0.80	+2.73
Brazil	04/14	4.500	BB-	75.8800	10.33	-0.38	+1.94	+4.49
Mexico	12/19	6.250	BB	82.0000	8.00	-0.04	-0.57	+2.11
Venezuela	03/20	6.750	B+	85.5000	8.17	-0.06	-0.39	+2.27

London closing. Prices in US$. Standard & Poor's ratings. Source: Interactive Data/FT Information.

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	101.16	101.16	-0.06	101.26	101.04	50,173	142,750
Jun	100.56	100.56	-0.06	100.56	100.56	2	112
Sep	100.56	100.56	-	100.56	100.56	2	-

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	Calls Jan	Calls Feb	Calls Mar	Puts Jan	Puts Feb	Puts Mar
96	3.96	3.97	4.04	-	0.03	0.11
97	2.96	3.02	3.13	-	0.08	0.19
98	1.97	2.13	2.27	0.01	0.18	0.32
99	1.04	1.33	1.51	0.08	0.37	0.55
100	0.33	0.70	0.90	0.37	0.74	0.93

Est. vol. total, Calls 4,670 Puts 9,227. Previous day's open int., Calls 70,723 Puts 102,483.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	104.54	104.53	-0.09	104.64	104.42	96345	256667
Jun	103.89	103.95	-0.07	104.04	103.89	500	614

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	Calls Jan	Calls Feb	Calls Mar	Calls Jun	Puts Jan	Puts Feb	Puts Mar	Puts Jun
10450	0.24	0.60	0.86	1.06	0.21	0.57	0.83	1.61
10500	0.06	0.37	0.62	0.85	0.53	0.84	1.09	1.90
10550	0.01	0.21	0.43	0.66	0.98	1.16	1.40	2.21

Est. vol. total, Calls 12574 Puts 12661. Previous day's open int., Calls 166844 Puts 178569

■ NOTIONAL GERMAN BUND (BOBL) FUTURES (DTB) DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	104.01	103.98	-0.04	104.08	103.93	64,446	169,285

■ NOTIONAL GERMAN BOBL FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	104.00	103.98	-0.07	104.07	103.94	5,121	14,114
Jun	-	103.40	-0.07	-	-	-	-

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	115.45	115.53	+0.01	115.64	115.33	23138	116748
Jun		114.95	+0.01			0	53

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	Calls Mar	Calls Jun	Puts Mar	Puts Jun
11550	0.92	1.20	0.89	1.75
11600	0.66	0.99	1.13	2.04
11650	0.46	0.82	1.43	2.37

Est. vol. total, Calls 761 Puts 859. Previous day's open int., Calls 33676 Puts 33872

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	-	106.29	-	-	-	-	8,443
Mar	105.80	105.80	-0.09	105.95	105.69	29,108	91,779

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	120-27	120-28	-0-05	121-02	120-24	2400	19041
Mar	121-15	121-13	-0-07	121-27	121-08	50955	166090

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	Calls Jan	Calls Feb	Calls Mar	Calls Jun	Puts Jan	Puts Feb	Puts Mar	Puts Jun
121	0-42	1-11	1-32	0	0-16	0-49	1-06	15-18
122	0-11	0-44	1-01	0	0-49	1-18	1-39	16-18
123	0-03	0-24	0-43	0	1-41	1-62	2-17	17-18

Est. vol. total, Calls 2230 Puts 230. Previous day's open int., Calls 53910 Puts 25766

Ecu

■ ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	100.50	100.46	-0.08	100.50	100.42	751	5,236

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Dec	120-03	120-00	-0-03	120-13	119-31	29,038	87,931
Mar	119-27	119-27	-0-03	120-10	119-26	265,174	640,317
Jun	119-23	119-16	-0-04	119-26	119-15	8,145	21,039

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Mar	129.60			129.69	129.59	1133	na
Jun						0	na

* LIFFE futures also traded on APT. All Open interest figs. are for previous day.

US CORPORATE BONDS

Dec 15	Red date	Coupn	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd v Govts
■ UTILITIES								
Pac Bell	07/02	7.25	AA-	104.1170	6.19	+0.02	-0.05	+0.46
NY Tel	08/25	7.00	A+	98.7749	7.10	+0.02	-0.07	+1.13
CWE	05/08	8.00	BBB	109.2482	6.74	+0.01	-0.07	+0.97
■ FINANCIALS								
GECC	05/07	8.75	AAA	116.9302	6.33	+0.01	-0.10	+0.56
Banc One	08/02	7.25	A+	103.9369	6.25	+0.02	-0.06	+0.52
US West	01/07	7.30	BBB+	103.2370	6.81	+0.02	-0.10	+1.04
■ INDUSTRIALS								
WMX Tech	04/99	6.25	A-	99.8238	6.38	+0.01	+0.07	+0.73
Wal Mart	05/02	6.75	AA	102.2725	6.15	+0.02	-0.06	+0.42
Dayton Hud	06/21	9.70	BBB+	129.9255	7.06	+0.01	-0.13	+1.09
■ AGENCIES								
FHLMC	04/07	7.14	N/A	107.3973	6.08	+0.01	-0.06	+0.31
SLMA	03/00	7.50	N/A	103.4314	5.82	+0.02	-0.01	+0.14
FNMA	02/18	8.95	N/A	129.0296	6.37	+0.02	-0.12	+0.40
FFCB	06/06	8.95	N/A	118.7858	6.07	+0.01	-0.08	+0.30
■ HIGH YIELD								
Stone Cont	02/01	9.88	B	102.0000	0.00	-	-	-
AK Stl	12/01	9.13	BB-	103.6250	0.00	-	-	-
Pacalta	06/04	10.75	B-	97.5000	0.00	-	-	-

New York closing. Source: Interactive Data/FT Information. Standard & Poor's ratings. Yields: semi-annual basis.

US INTEREST RATES

Latest		Treasury Bills and Bond Yields			
		One month	-	Two year	5.68
Prime rate	8½	Two month		Three year	5.71
Broker loan rate	7¼	Three month	5.23	Five year	5.75
Fed.funds	5½	Six month	5.40	10-year	5.78
Fed.funds at intervention	-	One year	5.46	30-year	5.97

INTERNATIONAL BONDS

Dec 16	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Govts
■ EURO DM								
EIB	02/07	5.750	AAA	102.7700	5.36	+0.01	-0.30	+0.07
Spain	01/07	5.750	AA	102.0500	5.46	+0.02	-0.27	+0.17
Philip Morris	03/04	5.375	A	99.4700	5.47	+0.01	-0.19	+0.41
Finland FRN	09/02	3.820	AA	100.7469	4.39	-	-0.23	-0.44
■ EURO FFR								
Austria	01/04	6.500	AAA	102.2900	5.05	+0.01	-0.31	+0.03
Abbey Nat	02/04	6.000	AA	104.3000	5.16	-0.01	-0.23	+0.14
Cred Foncier	02/04	9.125	A	118.7000	5.47	+0.01	-0.26	+0.45
3CIF FRN	12/01	3.750	AA-	99.8571	4.54	+0.01	-0.23	-0.16
■ EURO LIRA								
EIB	02/07	7.000	AAA	109.7200	5.61	+0.03	-0.42	-0.04
Abbey Nat	02/02	6.800	AA	105.1000	5.39	+0.02	-0.29	+0.15
Walt Disney	06/00	8.625	A	107.6500	5.26	-0.01	-0.41	+0.30
EIB FRN	03/01	5.825	AAA	100.2640	4.88	+0.01	-0.24	-0.24
■ EURO £								
EIB	12/07	7.625	AAA	107.5252	6.57	+0.02	-0.46	+0.29
Dresdner Bk	12/07	7.750	AA-	104.9937	7.04	+0.02	-0.40	+0.76
British Gas	03/00	7.625	A+	100.5080	7.35	-0.02	-0.20	+0.63
Abbey Nat FRN	02/02	7.830	AA	100.0361	6.48	-0.01	-0.38	-0.02
■ EURO $								
EIB	04/07	7.250	AAA	107.5970	6.15	+0.03	-0.14	+0.37
ABN Amro	06/07	7.125	AA-	104.4495	6.49	-0.02	-0.11	+0.71
Quebec	01/07	7.000	A+	103.4578	6.49	+0.05	-0.09	+0.71
Citicorp FRN	02/04	5.938	A+	99.4207	6.05	+0.04	+0.20	+0.29
■ EURO C$								
Bayer L-Bk	08/04	9.500	AAA	118.3700	6.05	+0.05	+0.45	+0.19
Toronto	05/04	8.500	AA+	113.5367	5.90	+0.05	+0.33	+0.04
Bell Canada	07/39	10.625	A+	107.2963	5.60	+0.07	+0.77	+0.12
Deutsche B FRN	09/02	5.875	AAA	101.1692	5.59	+0.11	+0.27	-0.20
■ EURO YEN								
World Bank	03/02	5.250	AAA	117.3300	1.07	-0.01	+0.04	-0.02
Spain	03/02	5.750	AA	119.2000	1.11	-0.01	-0.01	+0.02
Cred Foncier	08/02	4.750	A	114.0638	1.58	+0.01	+0.08	+0.49
Italy FRN	07/99	0.594	AA	100.3531	0.36	+0.03	+0.16	-0.16

London closing. Source: Interactive Data/FT Information. Standard & Poor's ratings. Yields: Local market standard/Annualised basis.

UK BONDS

FTSE Actuaries Govt. Securities

Price Indices UK Gilts	Tue Dec 16	Day's change %	Mon Dec 15	Accrued interest	xd adj. ytd
1 Up to 5 years (19)	119.72	0.05	119.67	2.00	10.39
2 5-15 years (21)	158.82	-0.09	158.95	1.93	11.88
3 Over 15 years (4)	191.74	-0.47	192.65	1.37	14.12
4 Irredeemables (4)	235.04	-0.69	236.67	1.83	14.48
5 All stocks (48)	151.50	-0.12	151.68	1.92	11.88
Index-linked					
6 Up to 5 years (2)	212.78	0.00	212.79	1.26	6.09
7 Over 5 years (10)	218.79	-0.06	218.92	1.66	5.76
8 All stocks (12)	217.08	-0.05	217.20	1.61	5.76

UK Indices

	Low coupon yield Dec 16	Dec 15	Yr. ago	Medium coupon yield Dec 16	Dec 15	Yr. ago	High coupon yield Dec 16	Dec 15	Yr. ago
5 yrs	6.45	6.46	7.28	6.54	6.55	7.33	6.58	6.59	7.36
15 yrs	6.28	6.25	7.76	6.29	6.25	7.75	6.40	6.36	7.69
20 yrs	6.28	6.25	7.82	6.26	6.23	7.79	6.40	6.36	7.70
Irred.†	6.40	6.35	7.86						

Index-linked	Inflation 5% Dec 16	Dec 15	Yr. ago	Inflation 10% Dec 16	Dec 15	Yr. ago
Up to 5 yrs	2.96	2.95	3.17	2.17	2.16	2.45
Over 5 yrs	2.98	2.98	3.55	2.74	2.74	3.33

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT Fixed Interest Indices

	Dec 16	Dec 15	Dec 12	Dec 11	Dec 10	Yr ago	High*	Low*
Govt. Secs. (UK)	101.57	101.81	101.74	101.72	100.98	94.04	101.83	93.31
Fixed Interest	134.23	134.48	134.41	134.39	133.20	116.30	134.54	115.32

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UK GILTS PRICES

Notes	Yield (1)	Yield (2)	Price £	+ or -	52 week High	52 week Low
[illegible]						

Other Fixed Interest

Notes	Yield Int	Yield Red	Price £	+ or -	52 week High	52 week Low
[illegible]						

● 'Tap' stock. ‡‡ Tax-free to non-residents on application. Closing mid-prices are shown in pounds per £100 nominal of stock. Prospective real redemption yields are calculated by HSBC Greenwell from Bank of England closing prices. ◊ Indicative price.

CURRENCIES AND MONEY

Won recovers after decision to float

MARKETS REPORT

By Richard Adams

The beleaguered South Korean won enjoyed its first day as a fully floating currency yesterday, appreciating against the US dollar.

The won gained 136.9 against the dollar on the day, as it rose to close at 1427 on the first day after the Bank of Korea removed the currency's 10 per cent daily trading limit at the request of the International Monetary Fund.

Analysts said the won benefited as the market unwound its long dollar positions, built up over the past weeks as the won plunged by nearly 50 per cent in value.

Other regional currencies fared worse, with the Indonesian rupiah hit by rumours of President Suharto suffering a mild stroke, while the New Zealand dollar fell after central bank predictions of a higher current account deficit.

Currency trading during European opening hours was very quiet, a combination of the pre-Christmas slowdown and waiting for a decision from the Federal Open Markets Committee meeting in the US yesterday.

The FOMC decision left interest rates unchanged, and the dollar remained stagnant during later trading in New York.

In thin volume, sterling made some recovery from its sharp fall on Monday against the D-Mark. The pound closed at DM2.915, a rise of nearly 1.5 pfennigs.

Sterling was little changed against the dollar, which rose by a similar amount as the pound against the D-Mark. The dollar closed at DM1.7846.

The German Ifo institute survey for November showed business confidence still low, as market turbulence in Asia began to take its toll. The key west German business climate index fell to 99.1, down from 99.7 in October and a September peak of 100.1.

Asia turbulence continued to overhang the yen which remained weak against the dollar and mark, although little changed from Monday's rates. Dealers await today's release of the Japanese government's stimulus package, postponed from yesterday. With much of package already known, analysts said there was little to surprise the markets.

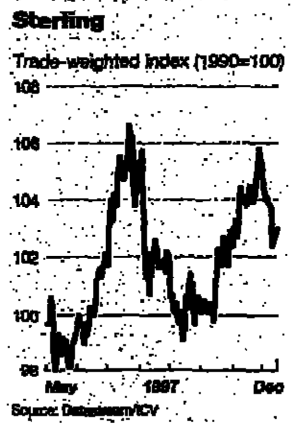
Traders in Toronto said the Bank of Canada intervened yesterday, buying against the US dollar at C$1.4240 after its currency weakened to to its lowest point this week.

■ Pound in New York

Dec 16	—Latest—	—Prev. close—
£ spot	1.6330	1.6335
1 mth	1.6307	1.6310
3 mth	1.6260	1.6264
1 yr	1.6075	1.6073

Sterling

Trade-weighted index (1990=100)



Source: Datastream/ICV

■ The won's rally was helped by central bank intervention and local exporters taking the opportunity to repatriate dollars before the end of the year.

Hopes that the International Monetary Fund will release more of its $57 billion rescue package were also improved, following the decision to abandon daily trading limits on the won, and the government's moves to sell shares in troubled banks and promote the sale of sovereign bonds worth $10bn.

South Korea also raised its domestic ceiling on interest rates to 40 per cent per annum, from 25 per cent.

But yesterday is likely to have been breathing space for the won, before fears of further bankruptcies and loan defaults take hold.

■ The New Zealand dollar slipped heavily against the US dollar, losing three cents after its central bank warned of a sharp downturn in economic growth over the next three years, caused mainly by Asian economic troubles.

The New Zealand currency closed at NZ$1.7216 against the US dollar, having been NZ$1.6902, following worries of a rise in the country's balance of payments. Short-term interest rates rose 0.44 of a percentage point, to 8.6 per cent.

The Reserve Bank forecast the current account deficit would rise to 7.7 per cent of GDP in the year to next March, from 4.7 per cent last year. The bank's governor, Don Brash, said it faced major problems in setting monetary conditions due to conflicting problems "which point the economy in diametrically opposite directions."

Mr Brash said a depreciation of the New Zealand dollar represented another risk to maintaining low inflation if markets were to grow concerned at the worsening current account deficit.

The Australian dollar also lost ground against the US currency. The Aussie closed at A$1.537, a fall of 1.4 cents.

■ OTHER CURRENCIES

Dec 16	£	$
Czech Rp	56.3401 - 56.4331	34.5010 - 34.5410
Hungary	329.425 - 329.668	201.730 - 201.780
Iran	4901.40 - 4899.00	3000.00 - 3000.00
Kuwait	0.4961 - 0.4965	0.3050 - 0.3051
Poland	5.7678 - 5.7788	3.5320 - 3.5370
Russia	9675.53 - 9683.53	5926.00 - 5927.00
U.A.E.	5.9977 - 6.0013	3.6728 - 3.6732

POUND SPOT FORWARD AGAINST THE POUND

Dec 16		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	20.5080	+0.1709	995 - 164	20.5200	20.3083	20.4385	4.1	20.3193	3.7	19.8316	3.3	102.6
Belgium	(BFr)	60.1533	+0.0262	977 - 088	60.2088	59.6730	59.9284	4.5	59.5731	3.9	58.1023	3.4	102.1
Denmark	(DKr)	11.1104	+0.0974	060 - 147	11.1170	11.0139	11.0726	4.1	11.0115	3.6	10.7703	3.1	104.4
Finland	(FM)	8.7956	+0.0696	890 - 021	8.8021	8.7260	8.7611	4.7	8.7084	4.0	8.5051	3.3	81.1
France	(FFr)	9.7623	+0.0817	586 - 659	9.7709	9.6820	9.7264	4.4	9.6662	3.9	9.428	3.4	105.6
Germany	(DM)	2.9149	+0.0242	138 - 160	2.9180	2.8903	2.9046	4.2	2.8874	3.8	2.8152	3.4	103.3
Greece	(Dr)	459.231	+3.33	987 - 474	459.837	454.183	462.495	-8.5	467.637	-7.5	488.98	-6.5	65.4
Ireland	(I£)	1.1274	+0.0036	252 - 296	1.1296	1.1237	1.126	1.5	1.1222	1.8	1.0989	2.5	96.8
Italy	(L)	2857.51	+23.89	595 - 907	2859.87	2835.10	2853.87	1.5	2847.01	1.5	2793.89	2.2	76.1
Luxembourg	(LFr)	60.1533	+0.0262	977 - 088	60.2088	59.6730	59.9284	4.5	59.5731	3.9	58.1023	3.4	102.1
Netherlands	(Fl)	3.2853	+0.0276	840 - 866	3.2876	3.2576	3.2731	4.4	3.2537	3.8	3.1723	3.4	101.5
Norway	(NKr)	11.9403	+0.08	333 - 473	11.9540	11.8468	11.8999	4.4	11.8287	3.7	11.5718	3.1	98.4
Portugal	(Es)	297.920	+2.327	745 - 054	298.054	295.916	297.329	2.3	295.947	2.6	289.935	2.7	91.7
Spain	(Pta)	246.790	+2.062	648 - 933	246.933	244.960	246.197	2.9	245.108	2.7	239.171	2.8	76.9
Sweden	(SKr)	12.7324	+0.0797	222 - 378	12.7376	12.6454	12.6956	3.5	12.6409	2.9	12.4457	2.2	85.7
Switzerland	(SFr)	2.3573	+0.0227	561 - 584	2.3595	2.3336	2.3441	6.7	2.3229	5.8	2.2299	5.4	108.6
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	103.0
Ecu	-	1.4785	+0.0107	758 - 772	1.4780	1.4660	1.4722	3.5	1.465	3.1	1.4341	2.9	-
SDR†	-	1.214051	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.6331	+0.0004	327 - 335	1.6357	1.6277	-	-	-	-	-	-	-
Brazil	(R$)	1.8175	+0.0007	169 - 181	1.8199	1.8120	-	-	-	-	-	-	-
Canada	(C$)	2.3249	+0.0065	239 - 259	2.3299	2.3144	2.3184	3.3	2.3073	3.0	2.2681	2.4	82.9
Mexico	(New Peso)	13.2167	-0.0678	083 - 240	13.2598	13.1263	13.3902	-15.6	13.6593	-13.4	14.659	-12.4	-
USA	($)	1.6334	+0.0004	330 - 338	1.6360	1.6260	1.631	1.9	1.6263	1.7	1.6071	1.6	108.9
Pacific/Middle East/Africa													
Australia	(A$)	2.5116	+0.024	100 - 132	2.5321	2.4973	2.5062	2.6	2.498	2.5	2.4684	2.2	85.0
Hong Kong	(HK$)	12.6581	+0.0028	541 - 620	12.6777	12.6170	12.6705	-1.2	12.7416	-2.6	13.1777	-4.1	-
India	(Rs)	64.2988	-0.4171	422 - 554	65.1550	64.2422	-	-	-	-	-	-	-
Israel	(Shk)	5.7879	+0.0088	765 - 972	5.7972	5.7752	-	-	-	-	-	-	-
Japan	(Y)	213.722	+0.142	594 - 849	214.530	212.960	212.307	7.9	209.957	7.0	199.242	6.8	118.0
Malaysia	(M$)	6.3180	+0.0309	083 - 277	6.3650	6.2419	6.3193	-0.2	6.3412	-1.5	6.4601	-2.7	-
New Zealand	(NZ$)	2.8121	+0.052	097 - 145	2.8499	2.7932	2.8129	-0.4	2.8154	-0.5	2.8218	-0.3	102.4
Philippines	(Peso)	65.7525	+0.5137	529 - 421	67.5820	65.6826	66.962	-22.1	69.958	-21.3	74.3333	-13.1	-
Saudi Arabia	(SR)	6.1264	+0.0017	241 - 287	6.1358	6.1070	6.1185	1.5	6.1044	1.4	6.0427	1.4	-
Singapore	(S$)	2.7842	+0.0318	810 - 873	2.7982	2.7222	2.803	-8.1	2.815	-4.4	2.8062	-0.8	-
South Africa	(R)	7.9783	-0.0071	739 - 827	7.9960	7.9585	8.1098	-19.8	8.138	-8.0	8.5071	-6.6	-
South Korea	(Won)	2330.86	-223	539 - 633	2553.85	2224.14	-	-	-	-	-	-	-
Taiwan	(T$)	53.7953	+0.2966	595 - 370	53.8370	53.4579	53.734	1.4	53.6168	1.3	53.1161	1.3	-
Thailand	(Bt)	78.4034	+0.3459	758 - 309	78.9030	75.9790	78.8155	-7.8	79.3505	-4.8	81.7281	-4.2	-

† Rates for Dec 15. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, offer, mid spot rates and forward rates in both this and the Dollar table are derived from THE WM/REUTERS CLOSING SPOT and FORWARD RATE services. Some values are rounded by the F.T.
The exchange rates printed in this table are also available on the internet at http://www.FT.com

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Dec 16		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P Morgan index
Europe													
Austria	(Sch)	12.5554	+0.1015	533 - 575	12.5580	12.4710	12.5313	2.3	12.4934	2.0	12.3379	1.7	102.5
Belgium	(BFr)	36.8270	+0.007	020 - 520	36.8200	36.5350	36.7437	2.7	36.63	2.1	36.152	1.8	102.4
Denmark	(DKr)	6.8020	+0.0579	010 - 030	6.8030	6.7568	6.7889	2.3	6.7705	1.9	6.7005	1.5	104.1
Finland	(FM)	5.3848	+0.0413	821 - 875	5.3875	5.3527	5.3716	3.0	5.3544	2.3	5.2913	1.7	80.5
France	(FFr)	5.9767	+0.0486	759 - 774	5.9780	5.9385	5.9634	2.7	5.9446	2.2	5.8642	1.9	105.4
Germany	(DM)	1.7846	+0.0144	843 - 848	1.7853	1.7730	1.781	2.5	1.7754	2.1	1.7514	1.9	103.3
Greece	(Dr)	281.150	+1.97	070 - 230	281.350	278.150	283.56	-10.3	287.855	-9.3	304.225	-8.2	65.4
Ireland	(I£)	1.4488	-0.0043	483 - 513	1.4550	1.4454	1.4466	0.2	1.4492	-0.1	1.4616	-0.9	-
Italy	(L)	1749.43	+14.2	860 - 995	1749.95	1738.80	1749.84	-0.3	1750.51	-0.2	1738.18	0.6	76.0
Luxembourg	(LFr)	36.8270	+0.007	020 - 520	36.8200	36.5350	36.7437	2.7	36.63	2.1	36.152	1.8	102.4
Netherlands	(Fl)	2.0113	+0.0165	110 - 116	2.0132	1.9979	2.0068	2.7	2.0005	2.1	1.9735	1.9	101.7
Norway	(NKr)	7.3101	+0.033	076 - 126	7.3185	7.2582	7.2836	2.6	7.2731	2.0	7.1995	1.5	97.7
Portugal	(Es)	182.390	+1.28	330 - 450	182.450	181.370	182.298	0.5	181.865	0.9	180.35	1.1	92.5
Spain	(Pta)	151.090	+1.22	040 - 140	151.140	150.160	150.949	1.1	150.705	1.0	149.17	1.3	78.7
Sweden	(SKr)	7.7938	+0.0469	913 - 963	7.7963	7.7482	7.7839	1.5	7.7724	1.1	7.7438	0.6	85.5
Switzerland	(SFr)	1.4432	+0.0136	428 - 435	1.4438	1.4310	1.4373	4.9	1.4263	4.1	1.3873	3.9	108.9
UK	(£)	1.6334	+0.0004	330 - 338	1.6360	1.6260	1.631	1.9	1.6263	1.7	1.6071	1.6	103.2
Ecu	-	1.1083	-0.0078	080 - 085	1.1122	1.1050	1.1079	-1.7	1.1102	-1.4	1.121	-1.2	-
SDR†	-	0.74177	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9998	-	998 - 998	0.9998	0.9998	-	-	-	-	-	-	-
Brazil	(R$)	1.1127	+0.0001	126 - 128	1.1130	1.1128	-	-	-	-	-	-	-
Canada	(C$)	1.4234	+0.0037	231 - 236	1.4236	1.4209	1.4218	1.6	1.4187	1.3	1.4112	0.9	83.2
Mexico	(New Peso)	8.0915	-0.0435	890 - 940	8.0940	8.0890	8.21	-17.6	8.399	-15.2	9.2465	-14.3	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	108.4
Pacific/Middle East/Africa													
Australia	(A$)	1.5376	+0.0143	370 - 382	1.5382	1.5477	1.5368	0.6	1.5342	0.9	1.5235	0.9	88.2
Hong Kong	(HK$)	7.7495	-0.0002	490 - 500	7.7500	7.7495	7.7665	-2.9	7.7845	-4.4	8.1995	-5.8	-
India	(Rs)	39.3650	-0.265	400 - 900	39.8500	39.3400	-	-	-	-	-	-	-
Israel	(Shk)	3.5435	+0.0046	385 - 485	3.5483	3.5357	-	-	-	-	-	-	-
Japan	(Y)	130.845	+0.055	800 - 890	131.230	130.630	130.17	6.2	128.095	5.3	123.97	5.3	118.7
Malaysia	(M$)	3.8680	+0.018	630 - 730	3.9130	3.8200	3.8745	-2.0	3.899	-3.2	4.038	-4.4	-
New Zealand	(NZ$)	1.7216	+0.0314	205 - 227	1.7227	1.7206	1.7247	-2.2	1.7301	-2.0	1.7489	-1.6	-
Philippines	(Peso)	40.2550	+0.305	100 - 000	41.5000	40.2100	41.055	-23.9	42.583	-22.1	45.3475	-12.7	-
Saudi Arabia	(SR)	3.7507	+0.0001	502 - 512	3.7512	3.7502	3.7516	-0.2	3.7534	-0.3	3.7599	-0.2	-
Singapore	(S$)	1.7045	+0.019	030 - 060	1.7150	1.6860	1.7185	-9.9	1.7308	-6.2	1.7457	-2.4	-
South Africa	(R)	4.8845	-0.0055	830 - 860	4.8945	4.8845	4.9725	-21.6	5.004	-9.8	5.2635	-8.4	-
South Korea	(Won)	1427.00	-136.9	400 - 000	1450.00	1360.00	-	-	-	-	-	-	-
Taiwan	(T$)	32.9345	+0.1735	170 - 520	32.9520	32.7300	32.9455	-0.4	32.987	-0.4	33.047	-0.3	-
Thailand	(Bt)	48.0000	+0.2	500 - 500	49.0000	46.6000	48.385	-9.6	48.79	-6.6	50.85	-5.9	-

† SDR rate per $ for Dec 15. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Dec 15: Base average 1990=100.
The exchange rates printed in this table are also available on the internet at http://www.FT.com

WORLD INTEREST RATES

MONEY RATES

December 16	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	3½	3⅝	3¾	3⅞	4⅛	6.00	2.75	-
France	3⅝	3⅝	3⅝	3¾	4⅛	4.60	-	3.30
Germany	3⅜	3⅝	3¾	3¾	4	4.50	2.50	3.30
Ireland	6⅝	6⅝	6⅝	6⅝	6⅝	-	-	6.75
Italy	6⅛	6⅝	6⅛	6⅛	5⅞	7.75	6.25	6.17
Netherlands	3⅛	3½	3½	3⅝	4	-	2.75	3.30
Switzerland	1⅛	1⅛	1⅛	1⅛	1⅝	-	1.00	-
US	5⅜	5⅝	5⅞	5⅞	5⅞	-	5.00	-
Japan	¼	⅜	⅜	⅝	⅝	-	0.50	-
■ $ LIBOR FT London								
Interbank Fixing	-	5⅞	5⅞	5⅞	-	-	-	-
US Dollar CDs	-	5.00	5.26	5.39	5.54	-	-	-
ECU Linked Ds	-	4⅜	4½	4½	4⅝	-	-	-
SDR Linked Ds	-	3⅝	3⅝	3⅝	3⅞	-	-	-

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo Mitsubishi, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Dec 16	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Danish Krone	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
German Mark	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dutch Guilder	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
French Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Portuguese Esc.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spanish Peseta	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sterling	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Swiss Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Canadian Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
US Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italian Lira	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Japanese Yen	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Asian $Sing	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH PIBOR FUTURES (MATIF) Paris interbank offered rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	96.19	96.17	-0.14	96.19	96.17	10,276	53,498
Jun	95.98	95.98	-0.29	96.00	95.97	5,181	38,668
Sep	95.83	95.82	-0.36	95.84	95.81	4,028	29,632

■ THREE MONTH EUROMARK FUTURES (LIFFE)* DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jan	96.28	96.29	-	96.28	-	954	17502
Jun	95.98	95.98	-0.01	96.00	95.97	28494	325250
Sep	95.83	95.82	-0.02	95.84	95.81	14799	234797
Dec	95.63	95.61	-0.02	95.63	95.60	17881	209106

■ ONE MONTH EUROMARK FUTURES (LIFFE) DM3m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jan		96.40				0	833
Feb		96.32				0	133
Mar		96.26				0	100
Apr		96.23				0	50

■ THREE MONTH EUROLIRA FUTURES (LIFFE)* L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	94.66	94.63	-0.05	94.66	94.61	17892	148045
Jun	95.23	95.24	-0.02	95.26	95.22	8089	129276
Sep	95.40	95.43	-0.01	95.45	95.40	6184	88727
Dec	95.42	95.43	-0.01	95.45	95.40	2606	61639

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	98.19	98.20	-0.02	98.24	98.16	11539	66213
Jun	97.99	98.05	-0.01	98.07	97.99	3892	33482
Sep	97.90	97.91	-	97.92	97.88	1192	17847
Dec	97.65	97.68	-	97.68	97.65	309	7469

■ THREE MONTH EUROYEN FUTURES (LIFFE) Y100m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar		99.19	-0.02				0
Jun		99.26	-0.05				0
Sep	99.25	99.26	-0.06	99.25	99.25	20	-

■ THREE MONTH ECU FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	95.49	95.50	-	95.50	95.46	597	8377
Jun	95.48	95.47	-0.02	95.49	95.47	204	8212
Sep	95.44	95.42	-0.02	95.44	95.42	36	8088
Dec	95.50	95.50	-0.01	95.50	95.50	70	3906

* LIFFE futures also traded on APT

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

Strike Price	CALLS Mar	CALLS Jun	CALLS Sep	PUTS Mar	PUTS Jun	PUTS Sep
9450	0.27	0.78	0.99	0.14	0.05	0.06
9475	0.13	0.59	0.77	0.25	0.09	0.09
9500	0.06	0.30	0.57	0.43	0.15	0.14

Est. vol. total, Calls 9517 Puts 1000. Previous day's open int., Calls 158054 Puts 51368

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Dec 16		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.47	16.23	4.846	1.874	4750	5.461	19.85	495.2	410.3	21.16	3.919	1.662	3.865	2.715	355.3	2.454
Denmark	(DKr)	54.14	10	8.787	2.624	1.015	2572	2.957	10.75	268.1	222.1	11.46	2.122	0.900	2.093	1.470	192.4	1.329
France	(FFr)	61.62	11.38	10	2.986	1.155	2927	3.365	12.23	305.2	252.8	13.04	2.415	1.024	2.382	1.673	218.9	1.512
Germany	(DM)	20.64	3.812	3.349	1	0.387	980.3	1.127	4.096	102.2	84.66	4.367	0.809	0.343	0.798	0.560	73.32	0.507
Ireland	(I£)	53.35	9.855	8.659	2.586	1	2535	2.914	10.59	264.2	218.9	11.29	2.091	0.887	2.062	1.449	189.6	1.310
Italy	(L)	2.105	0.389	0.342	0.102	0.039	100	0.115	0.418	10.43	8.637	0.446	0.083	0.035	0.081	0.057	7.479	0.052
Netherlands	(Fl)	18.31	3.382	2.972	0.887	0.343	869.8	1	3.635	90.68	75.12	3.875	0.718	0.304	0.708	0.497	65.05	0.449
Norway	(NKr)	50.38	9.305	8.176	2.441	0.944	2393	2.751	10	249.5	206.7	10.66	1.974	0.838	1.947	1.368	179.0	1.237
Portugal	(Es)	20.19	3.730	3.277	0.979	0.378	959.2	1.103	4.008	100	82.84	4.273	0.791	0.336	0.780	0.548	71.74	0.496
Spain	(Pta)	24.37	4.502	3.956	1.181	0.457	1158	1.331	4.838	120.7	100	5.158	0.955	0.405	0.942	0.662	86.60	0.598
Sweden	(SKr)	47.25	8.727	7.668	2.290	0.886	2245	2.581	9.379	234.0	193.9	10	1.852	0.786	1.826	1.283	167.9	1.160
Switzerland	(SFr)	25.52	4.713	4.141	1.237	0.478	1212	1.394	5.065	126.4	104.7	5.400	1	0.424	0.986	0.693	90.66	0.626
UK	(£)	60.15	11.11	9.762	2.915	1.127	2858	3.285	11.94	297.9	246.8	12.73	2.357	1	2.325	1.633	213.7	1.476
Canada	(C$)	25.87	4.779	4.199	1.254	0.485	1229	1.413	5.136	128.1	106.1	5.475	1.014	0.430	1	0.703	91.92	0.635
USA	($)	36.83	6.802	5.977	1.785	0.690	1749	2.011	7.310	182.4	151.1	7.794	1.443	0.612	1.423	1	130.8	0.904
Japan	(Y)	28.15	5.199	4.568	1.364	0.528	1337	1.537	5.587	139.4	115.5	5.957	1.103	0.468	1.088	0.764	100	0.691
Ecu	-	40.74	7.525	6.612	1.974	0.764	1935	2.225	8.087	201.8	167.2	8.622	1.597	0.677	1.575	1.106	144.8	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	0.5664	0.5640	-0.0026	0.5647	0.5636	16,977	62,129
Jun	-	0.5701	-	-	-	16	4,392
Sep	-	0.5670	-	-	-	7	140

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	0.7080	0.7020	-0.0044	0.7066	0.7010	12,996	36,096
Jun	-	0.7134	-	-	0.7090	17	1,478
Sep	-	0.7125	-	-	-	6	110

■ JAPANESE YEN FUTURES (IMM) Yen 12.5m per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	0.7755	0.7740	-0.0017	0.7754	0.7728	19,344	97,714
Jun	-	0.7861	-	-	0.7845	13	1,663
Sep	0.8066	0.7960	-	-	-	2	1,270

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	1.6264	1.6254	+0.0006	1.6270	1.6202	18,916	33,893
Jun	-	1.6172	-	1.6220	1.6150	17	1,265
Sep	-	1.6160	-	1.6320	1.6100	7	4

UK INTEREST RATES

LONDON MONEY RATES

Dec 16	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	7¼ - 6½	7$\frac{5}{16}$ - 7$\frac{1}{16}$	7½ - 7$\frac{5}{16}$	7$\frac{19}{32}$ - 7$\frac{15}{32}$	7¾ - 7⅝	7$\frac{25}{32}$ - 7⅝
Sterling CDs	-	-	7⅜ - 7$\frac{5}{16}$	7$\frac{9}{16}$ - 7½	7$\frac{21}{32}$ - 7$\frac{19}{32}$	7¾ - 7$\frac{11}{16}$
Treasury Bills	-	-	7¼ - 7⅛	7⅜ - 7$\frac{5}{16}$	-	-
Bank Bills	-	-	7¼ - 7⅛	7$\frac{5}{16}$ - 7$\frac{3}{16}$	7⅜ - 7¼	-
Local authority deps.	7⅛ - 7	7¼ - 7⅛	7$\frac{3}{16}$ - 7$\frac{7}{32}$	7$\frac{9}{16}$ - 7½	7¾ - 7$\frac{21}{32}$	7$\frac{13}{16}$ - 7¾
Discount Market deps	7¼ - 7⅛	7¼ - 7	-	-	-	-

UK clearing bank base lending rate 7¼ per cent from Nov 6, 1997

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	2½	5½	5	5	4¾

Certs of Tax dep. under £100,000 is 2½pc. Deposits withdrawn for cash 1¼pc.
Ave. tender rate of discount on Dec 12. 7.0303pc. ECGD fixed rate Stlg. Export Finance. Make up day Nov 28, 1997. Agreed rate for period Dec 24, 1997 to Jan 28, 1998, Scheme III 8.84pc. Reference rate for period Nov 1, 1997 to Nov 28, 1997, Schemes IV & V 7.601pc. Finance House Base Rate 7½pc from Dec 1, 1997

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	92.29	92.28	-0.01	92.30	92.28	18557	131332
Mar	92.36	92.39	+0.03	92.40	92.35	22250	131427
Jun	92.47	92.50	+0.03	92.51	92.46	17260	103948
Sep	92.63	92.67	+0.03	92.68	92.63	9158	82447
Dec	92.82	92.86	+0.02	92.89	92.82	8313	77683

Also traded on APT. All Open interest figs. are for previous day.

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	CALLS Dec	CALLS Mar	CALLS Jun	PUTS Dec	PUTS Mar	PUTS Jun
9225	0.03	0.22	0.36	0	0.08	0.11
9250	0	0.07	0.20	0.22	0.18	0.20
9275	0	0.02	0.10	0.47	0.38	0.35

Est. vol. total, Calls 4684 Puts 2401. Previous day's open int., Calls 251086 Puts 232613

EMS EUROPEAN CURRENCY UNIT RATES

Dec 16	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Ireland	0.798709	0.763621	+0.001418	-4.39	7.13	30
Italy	1906.48	1931.89	-0.33	1.33	1.08	-10
Finland	5.85424	5.94822	-0.0026	1.61	0.81	-11
Spain	163.826	166.856	+0.063	1.85	0.57	-13
Portugal	197.398	201.474	-0.042	2.06	0.35	-14
France	6.45863	6.60277	+0.00038	2.23	0.19	-19
Denmark	7.34555	7.51326	+0.00307	2.28	0.14	-16
Germany	1.92573	1.97150	+0.00034	2.38	0.05	-23
Austria	13.5485	13.8707	+0.0026	2.38	0.05	-17
Netherlands	2.16979	2.22190	+0.00051	2.40	0.02	-18
Belgium	39.7191	40.6825	+0.0065	2.43	0.00	-18
NON ERM MEMBERS						
Greece	295.269	310.849	+0.197	5.28	-2.71	-
UK	0.793103	0.678254	-0.000719	-14.48	19.77	-

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu: a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate. 17/9/92: Sterling suspended from ERM. Adjustment calculated by the Financial Times.

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Jan	CALLS Feb	CALLS Mar	PUTS Jan	PUTS Feb	PUTS Mar
1.640	1.38	2.03	2.44	2.13	3.00	3.66
1.650	1.00	1.64	-	2.73	3.61	-
1.660	0.70	1.29	1.73	3.39	-	4.90

Previous day's vol., Calls 96 Puts 248 . Prev. day's open int., Calls 35,547 Puts 29,683

■ PHILADELPHIA SE D-MARK/$ OPTIONS DM62,500 ($ per DM)

Strike Price	CALLS Jan	CALLS Feb	CALLS Mar	PUTS Jan	PUTS Feb	PUTS Mar
0.560	0.97	1.27	1.51	0.43	0.65	0.82
0.565	0.68	0.98	1.23	0.64	0.87	1.04
0.570	0.46	0.75	0.99	0.93	1.16	1.30

Previous day's vol., Calls n/a Puts n/a . Prev. day's open int., Calls n/a Puts n/a

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	94.19	94.16	+0.07	94.21	94.17	111,019	493,558
Jun	94.18	94.15	-	94.22	94.16	63,263	390,253
Sep	94.13	94.11	-0.08	94.18	94.12	41,525	285,191

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	95.07	95.04	-	95.14	95.06	543	7,058
Jun	95.09	95.08	-	95.12	95.07	107	1,070
Sep	95.07	95.10	-	95.10	95.07	5	23

All Open interest figs. are for previous day

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

Strike Price	CALLS Jan	CALLS Feb	CALLS Mar	CALLS Jun	PUTS Jan	PUTS Feb	PUTS Mar	PUTS Jun
9600	0.19	0.21	0.22	0.15	0.02	0.04	0.05	0.17
9625	0.03	0.05	0.06	0.06	0.11	0.13	0.14	0.33
9650	0.01	0.01	0.01	0.02	0.34	0.34	0.34	0.54
9675	0	0	0	0.01	0.58	0.58	0.58	0.78

Est. vol. total, Calls 12823 Puts 7054. Previous day's open int., Calls 257172 Puts 293704

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

Strike Price	CALLS Mar	CALLS Jun	CALLS Sep	PUTS Mar	PUTS Jun	PUTS Sep
9825	0.12	0.13	0.14	0.17	0.33	0.48
9850	0.04	0.05	0.06	0.34	0.50	0.65

Est. vol. total, Calls 16 Puts 0. Previous day's open int., Calls 18 Puts 886

BASE LENDING RATES

	%		%		%
Adam & Company	7.25	Exeter Trust Limited	8.25	●Singer & Friedlander	7.25
Allied Irish Bank (GB)	7.25	Financial & Gen Bank	8.00	●Smith & Williamson	7.25
●Henry Ansbacher	7.25	●Robert Fleming & Co	7.25	Sun Banking Corp Ltd	7.25
Banco Bilbao Vizcaya	7.25	●Guinness Mahon	7.25	TSB	7.25
Bank of Cyprus	7.25	Habib Bank AG Zurich	7.25	United Bank of Kuwait	7.25
Bank of Ireland	7.25	●Hambros Bank	7.25	Unity Trust Bank Plc	7.25
Bank of India	7.25	Heritable & Gen Inv Bk	7.25	Whiteaway Laidlaw	7.25
Bank of Scotland	7.25	C. Hoare & Co	7.25	Yorkshire Bank	7.25
Barclays Bank	7.25	Hongkong & Shanghai	7.25		
Brit Bk of Mid East	7.25	Investec Bank (UK) Ltd	7.25	● Members of London Investment Banking Association	
●Brown Shipley & Co Ltd	7.25	Julian Hodge Bank	7.25	* In administration	
Citibank NA	7.25	●Leopold Joseph & Sons	7.25		
Clydesdale Bank	7.25	Lloyds Bank	7.25		
The Co-operative Bank	7.25	Midland Bank	7.25		
Coutts & Co	7.25	NatWestminster	7.25		
Cyprus Popular Bank	7.25	●Rea Brothers	7.25		
Duncan Lawrie	7.25	Royal Bk of Scotland	7.25		
		Scottish Widows Bank	7.25		

COMMODITIES AND AGRICULTURE

Platinum price at 4¾-year low

By Kenneth Gooding

Platinum's price fell to a 4¾-year low yesterday. Traders said there was some aggressive selling while the market was full of rumours about Russian sales and a big drop in demand because of Asian financial turmoil.

Platinum, used mainly for car catalysts that remove pollutants from automotive engines and in jewellery, fell to US$339 an ounce at one stage before closing in London at $342.50, down $12 an ounce. The price has dropped by $40 an ounce, or more than 10 per cent, in the past week.

Jeremy Coombes, general manager, marketing, for Johnson Matthey, the world's biggest platinum marketing group, said there were indications that some speculative funds were selling their investments in commodities generally because of Asia's financial problems.

But there was no reason to suspect platinum demand would be affected by "the fall-out from Asia".

Johnson Matthey saw no reason to alter its opinion, voiced in last month's review of the market, that platinum demand would substantially outpace supply this year for the first time since 1988 and there would be a further supply deficit in 1998.

Mr Coombes said there was no evidence that Russia, the second biggest platinum producer, had increased exports.

Nevertheless, although there had been much short-selling by funds – selling platinum they did not own in the expectation the price would fall and they could cover their positions at the lower price – this did not on its own seem to justify the fall in prices.

Südelektra buys vanadium units

By Kenneth Gooding, Mining Correspondent

Two South African vanadium producers that together account for 17 per cent of world production of this material – used in alloys to strengthen structural steel – are changing hands.

Glencore, the Switzerland-based international trading group, is selling Vanadium Technologies (Vantech) for US$82m and its 82 per cent of Rhoex for $62.3m to Südelektra, the Swiss diversified natural resources group.

Glencore owns 40.5 per cent of Südelektra, which holds most of the combined group's industrial assets.

Südelektra is to make a R6.20 a share offer for the rest of the Rhoex shares at a cost of up to US$13.7m.

The deals come at a time when vanadium prices are high and just over a month after Glencore agreed to take a majority stake in the A$95m (US$62.4m) Windimurra vanadium project in Western Australia, scheduled to add about 11 per cent to global production.

Glencore has committed to spending A$35m in development costs and provide support for debt financing in return for a 51 per cent stake in Windimurra, at present owned by Precious Metals Australia.

The project should come into production at an annual rate of 7,260 tonnes a year towards the end of 1999. Glencore has also agreed to market all the vanadium for a minimum of 10 years of the mine's expected 30-year life.

Willy Strothetter, chairman of Glencore and Südelektra, said that, at present, the Windimurra project did not meet Südelektra's acquisition criteria – particularly that any purchase should not dilute earnings – but eventually it would join the other vanadium producers in Südelektra.

Since 1991 Vantech had increased production from 3,000 to 5,400 tonnes a year and become one of the world's lowest-cost producers. Operating expertise developed by Vantech was now being applied to Rhoex, acquired by Glencore last year, and should result in its annual output increasing to 7,000 tonnes by 2000.

Glencore had agreed to take the entire production of both companies for 20 years and in the three years from October this year would pay a minimum of US$3.50 a pound. This price is at the high end of the average since 1990, which has been between $2.50 and $3.50 a pound, but is below the present price of about $4.80.

Vanadium's price has risen about 20 per cent in the past month because of strong demand and lack of supply from China and Russia. Mr Strothetter said Glencore accounted for 20-25 per cent of the global market, worth US$600m-$700m a year at present prices.

The acquisitions will be funded via a US$150m three-year revolving credit facility provided by Credit Suisse First Boston. NatWest Markets provided independent valuations.

Gas prices up for UK industry

By Robert Corzine

The UK has lost its standing as the country with the lowest natural gas prices for large business users, according to a survey by National Utility Services, a UK-based consultant.

Of the 13 countries covered by the survey, Canada – a big gas producer and exporter to the US – enjoyed the lowest domestic gas prices during the year.

Industrial and commercial gas prices in the UK, the most liberalised gas market in Europe, rose more than 23 per cent this year, after registering a 5 per cent increase in 1996.

But the survey showed that UK gas prices remain the lowest in Europe in spite of the most recent price rises; a gas surplus in the UK forced prices down 40 per cent in 1995.

Andrew Johns, an NUS director, attributed the rise in UK prices to a tougher attitude towards certain segments of the commercial and industrial markets by a number of gas suppliers.

The earlier price declines were partly the result of fierce competition, as new entrants battled for market share, even if individual contracts proved unprofitable. Suppliers this year balked at such arrangements.

Other factors behind the rise in UK prices this year included a higher price for spot gas and new penalty charges applied by Transco, the monopoly pipeline operator.

Gas prices in other big European economies varied considerably. Prices in Germany, the largest European gas market, were up by more than 30 per cent, in part because they were linked to higher fuel oil prices.

Italy recorded a 6.3 per cent price rise, well above the 1.5 per cent inflation rate. The increase made Italy second only to Sweden as the country with the most expensive gas.

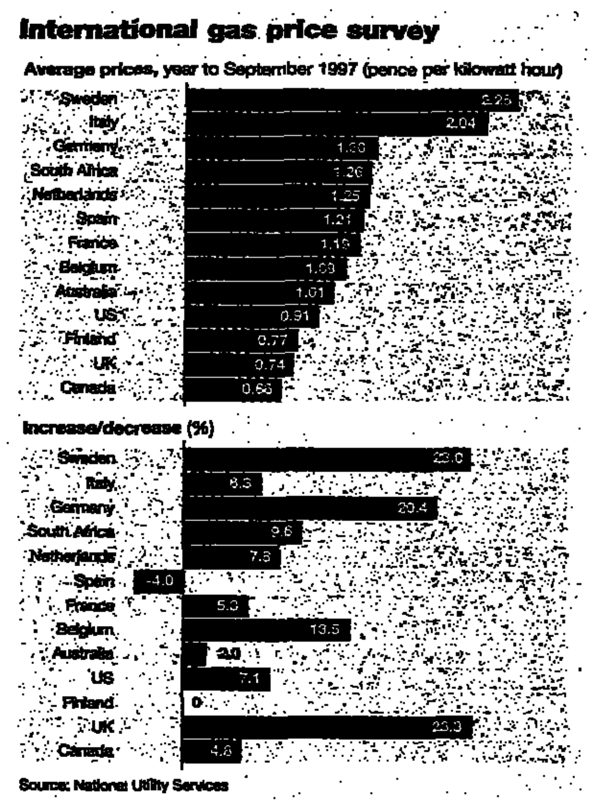
Prices in France were up by an average of 5.3 per cent in 1997.

A separate study of Europe's gas market has predicted that gas consumption in the European Union could almost double by 2020.

DRI, a unit of Standard & Poor's, said increased competition as a result of the planned, partial liberalisation of the EU gas market could result in substantial price reductions over time.

International gas price survey

Average prices, year to September 1997 (pence per kilowatt hour)



Source: National Utility Services

It said those countries with the greatest potential for expansion of their gas industries as a result of liberalisation are Germany, France, Italy, Spain and Portugal. Those with the lowest potential for growth are Finland, Sweden and Switzerland.

London's gold volume near record

By Kenneth Gooding

The volume of gold cleared in London, the international settlement centre for bullion, remained high in November with an average of 40.9m ounces – worth US$12.5bn – cleared each day, according to the London Bullion Market Association.

This did not quite match the record of 42m ounces – worth $13.6bn – established in October, when producers rushed to hedge their output as the gold price dropped sharply. Nevertheless, it was 31 per cent ahead of November 1996.

Chris Elston, chief executive of the LBMA, said: "There was perhaps less forward activity in the gold market than in October but physical demand remained strong and the speculative side was still active."

Silver daily turnover in November averaged 327.9m ounces valued at US$1.7bn compared with the October average of 345.5m ounces also worth $1.7bn.

Mr Elston pointed out that the silver price rose in November.

Profit-taking blamed for fall in coffee

MARKETS REPORT

By Vincent Boland and Kenneth Gooding

Coffee prices tumbled in London and New York, in spite of reports of a sharper-than-expected fall in US coffee stocks last month and in this year's output in Colombia, which fell 7.9 per cent in the 11 months to November, according to the National Coffee Growers' Association.

Traders said the news on both fronts was not a surprise and had been discounted, and the price falls were due to profit-taking.

After a rise in early trading on the London International Financial Futures and Options Exchange, prices fell when New York trading started lower. The Liffe March future closed down $97 a tonne at $1,715 a tonne, though turnover was not heavy.

On the New York Cotton, Sugar and Cocoa exchange the March future had fallen 14.2 cents a pound at noon, to 171.25 cents a pound, after the Green Coffee Association said supplies of green coffee stocks fell last month to just over 1.5m bags.

On Liffe, the March cocoa future fell £38 to close at £1,119 a tonne.

Crude oil prices edged higher yesterday afternoon after having hit their lowest point since February 1996 in early trading on London's International Petroleum Exchange.

The price of benchmark Brent Blend for January delivery, the contract for which expired at the end of trading last night, slipped at one point to $17.10 a barrel, 16 cents down on Monday's close. It recovered in late trading to around $17.35 a barrel.

February Brent was quoted higher, at around $17.50 a barrel.

The wave of selling on the London Metal Exchange that sent prices plummeting on Monday continued yesterday and sent the price of copper to its lowest level for nearly four years.

Lead touched a 3½-year low, tin was at a 2¾-year low while aluminium fell to to a one-year low.

Traders said the economic crisis in Asia had negative implications for base metals while some commodity funds and speculators had been liquidating long positions. Producers were also hedging future production and adding to the metal available to the market.

Concern was heightened by rumours that some Asian consumers were being forced to default on contracts.

Copper at one point yesterday fell below US$1,745 a tonne, the level to which the price fell after the Sumitomo copper trading scandal erupted in June 1996. It traded at $1,740, the lowest since January 1994.

Angus MacMillan, research manager at Billiton Metals, pointed out: "In the past metal prices fell on fundamentals. Now they preempt fundamentals. There are about 4¼ weeks of consumption in copper stocks whereas the normal level is 5½ to six weeks.

"This means the market in the short term will be susceptible to supply disruptions or offtake from, say, China or Japan. In the long term, though, stocks inevitably will build."

The price of gold in late London trading firmed with some help from New York to close 40 cents an ounce up from Monday's close at US$285.40. Traders said gold's price was range-bound.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1493.5-94.5	1520-21
Previous	1514-5	1540-41
High/low		1532/1513
AM Official	1501-02	1527.5-28
Kerb close		1517-18
Open int.	261,619	
Total daily turnover	197,375	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1360-70	1385-90
Previous	1388-93	1410-13
High/low		1398/1385
AM Official	1375-78	1395-98
Kerb close		1380-85
Open int.	5,880	
Total daily turnover	2,108	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	533.5-34.5	544-44.5
Previous	516-7	530-1
High/low		543/524
AM Official	525-6	535.5-6
Kerb close		534-35
Open int	32,897	
Total daily turnover	15,796	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	5930-40	6030-35
Previous	5935-45	6035-40
High/low		6070/6005
AM Official	5925-30	6005-10
Kerb close		6015-20
Open int	61,752	
Total daily turnover	42,727	

■ TIN ($ per tonne)

	Cash	3 mths
Close	5375-85	5280-85
Previous	5355-65	5275-80
High/low		5290/5240
AM Official	5355-60	5265-70
Kerb close		5275-80

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	283.4	-1.1	286.0	282.8	503	528
Jan	284.1	-1.1	283.3	283.2	3	2
Feb	285.4	-1.0	287.8	285.1	23,861	102k
Apr	287.0	-1.1	289.5	286.9	687	12,083
Jun	289.0	-1.1	291.1	289.0	518	11,408
Aug	291.0	-1.2	292.5	291.5	84	5,259
Total					28,847	167,988

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	340.6	-11.4	349.0	339.5	1,589	10,336
Apr	340.1	-11.7	344.5	339.2	472	4,196
Jul	339.6	-12.4	348.2	341.0	52	215
Total					2,113	14,748

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	184.80	-8.20	192.00	186.00	35	260
Mar	182.05	-8.95	190.00	182.00	1,263	3,449
Jun	180.05	-8.70	188.50	188.50	78	240
Sep	177.05	-	-	202.00	-	4
Total					1,270	3,953

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	591.0	+4.5	594.0	579.0	58	590
Jan	593.0	+5.0	592.0	580.0	3	32
Mar	596.5	+6.0	599.0	581.0	9,479	67,723
May	596.5	+6.2	598.0	580.0	687	6,509
Jul	596.0	+6.0	596.5	582.0	553	6,409
Total					11,178	92,941

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Jan	18.23	+0.36	18.24	17.92	32,639	64,675
Feb	18.42	+0.07	18.45	18.20	27,452	101k
Apr	18.77	+0.05	18.77	18.60	3,364	24,637
May	18.89	+0.03	18.39	18.75	1,123	20,606
Jun	18.98	+0.05	18.98	18.84	1,707	34,433
Total					81,982	438,470

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (100 tonnes; £ per tonne)

SOFTS

■ COCOA LIFFE (10 tonnes; £/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	1092	-27	1129	1126	23	865
Mar	1119	-28	1157	1116	5,502	71,594
May	1138	-27	1174	1138	1,137	25,110

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open Int
Dec	66.175	+0.725	66.375	65.750	2,735	6,305
Feb	66.125	+0.800	66.175	65.650	10,768	50,834
Apr	69.125	+0.400	69.350	68.925	4,316	24,629

LONDON TRADED OPTIONS

LONDON SPOT MARKETS

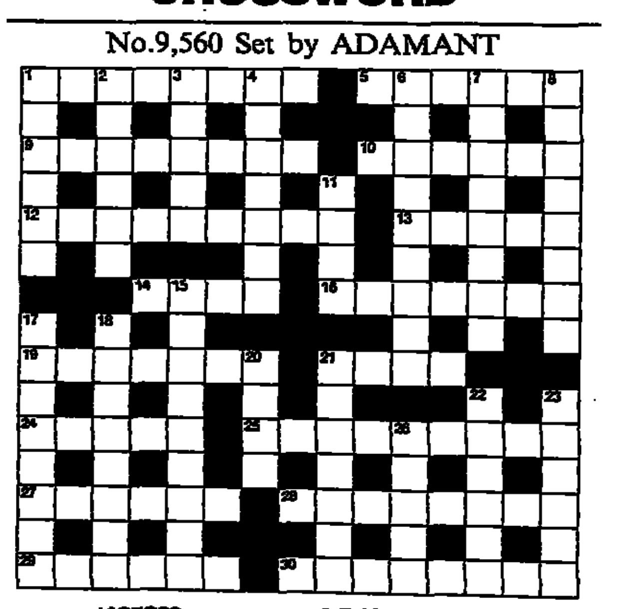
PULP AND PAPER

INDICES

JOTTER PAD

CROSSWORD

No.9,560 Set by ADAMANT



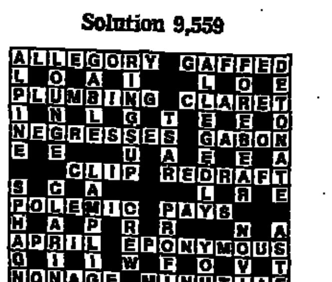
ACROSS

1 Worries that the returning salesman will burst out (8)
5 Things washed up from planes in the early hours (6)
9 "A Red Revolution" can be very accessible as literature (8)
10 Does away with crass blunder about prince (6)
12 Student to pass part of course with one article (9)
13 A French shirt that is loose (5)
14 Gangster smashed hut at Gateshead (4)
16 Difficult terrain for one trying to guide the Arabs for example (7)
19 Denials over expelled student being replaced by first termer with bad marks (7)
21 The German collects eastern animals (4)
24 Log books always around (5)
25 Stimulating pill – instant way to get to the very top (9)
27 Weary about a day of ranting diatribe (6)
28 Give willingly (8)
29 Heard to draw breath before the cut (6)
30 Late alteration to case indeed (8)

DOWN

1 The main sort of theft (6)
2 Genuinely depend on holding up the French (6)
3 It's the custom to take it away from the banger (5)
4 Having insufficient capital cover (7)
6 Bridge opponents daring to spur people on (9)
7 Piqued about hospital article on the fabric (8)
8 Service sure to upset those who practise the laying on of hands (8)
11 One can come up to you, it's said (4)
15 Fraction by which old Asian doctor cheated heartless death? (9)
17 Potentially lethal material at bosses' disposal (8)
18 See about the bloomer, coming from a certain direction (8)
20 Looking grim, died for us (4)
21 Use up parking allowed in environs of river (7)
22 Lots at risk for the final sums .... (6)
23 .... and the rest, he'd cut into (6)
26 Make up to another rogue (5)

Solution 9,559



Profit-taking
blamed for
fall in coffee

CROSSWORD

FT MANAGED FUNDS SERVICE

Offshore Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (FSA RECOGNISED)

[illegible]

BERMUDA (REGULATED)(**)

[illegible]

GUERNSEY (FSA RECOGNISED)

[illegible]

GUERNSEY (REGULATED)(**)

[illegible]

IRELAND (FSA RECOGNISED)

[illegible]

IRELAND (REGULATED)(**)

[illegible]

ISLE OF MAN (FSA RECOGNISED)

[illegible]

ISLE OF MAN (REGULATED)(**)

[illegible]

JERSEY (FSA RECOGNISED)

[illegible]

JERSEY (REGULATED)(**)

[illegible]

LUXEMBOURG (FSA RECOGNISED)

[illegible]

Offshore Funds and Insurances

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Bank Von Ernst & Cie AG

Marktgasse 63/65, 3001 Berne, Switzerland 0041 313281111

	Init Charge	Selling Price	Buying Price	+ or -	Yield Gr's
UK Equity		£18.28		+0.28	-
UK Smaller Co's Eqty		£27.50		-0.03	-
Nth American Equity		$17.83		+0.14	-
US Smaller Co's Eqty		$23.73		-0.20	-
Pacific Basin Equity		$10.56		-0.18	-
Japanese Equity		Y473		+2	-
European Equity		DM18.44		-0.03	-
Swiss Equity		SFr18.70		-0.12	-
Sterling Fixed Int		£16.18		-0.03	-
Sterling Fixed Int Div		£10.53		-0.01	-
European Fixed Int		DM14.02		+0.01	-
European Fixed Int Div		DM9.41		+0.01	-
DM Bond Cap		DM11.38		+0.02	-
DM Short Term Cap		DM10.38		—	-
Global Equity		$15.58		+0.05	-
Global Bond		$14.76		-0.05	-
Global Bond Div		$9.35		-0.03	-
Global Managed		[illegible]		+0.14	-
Swiss Franc Short Term Div		SFr9.80		(0)	-
Swiss Franc Short Term Cap		SFr9.80		—	-
Swiss Franc Bonds Div		SFr10.25		(0)	-
Swiss Franc Bonds Cap		SFr10.25		—	-

Banque Indosuez

39 Allee Scheffer, L-2520 Luxembourg 00352 47671

Barclays Diversified Portfolio (z)

30 avenue J.F. Kennedy, L-2951 352 4799 3306

Barclays Inv Funds (Luxembourg)

25 Place de la Gare, L-1616 00 352 404344

Frontrunner I (u)

GT Global

HSBC Investment Funds Luxembourg SA (u)

Morgan Stanley Sicav - Contd.

ACM Offshore Funds - Contd.

Credit Suisse Asset Mgmt Funds - Contd.

Merrill Lynch Asset Management - Contd.

TCW Luxembourg Funds

Friends Provident International

LUXEMBOURG (REGULATED)(**)

OFFSHORE INSURANCES

[illegible]

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Offshore Insurances and Other Funds

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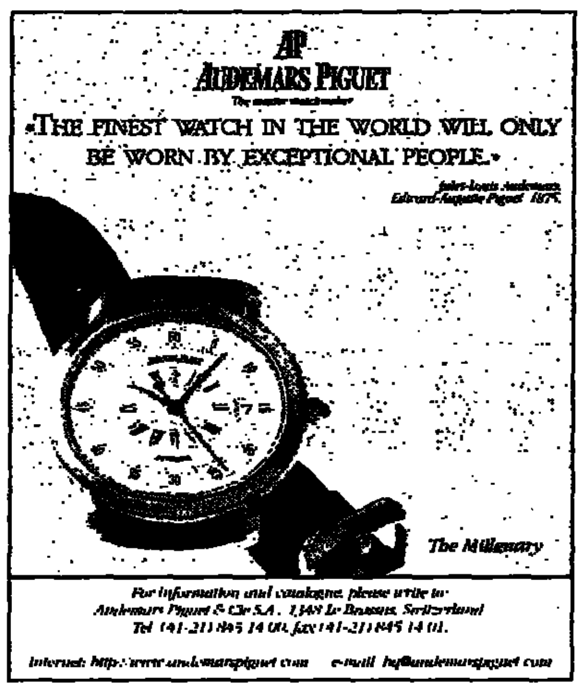
OTHER OFFSHORE FUNDS



LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

	Notes	Price	+ or -	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
Allied Domecq	♣♠	581xd	+6	594	407½	787	4.5	13.8
Bulmer (HP)	♣†	387½	—	626	382½	-	4.8	11.9
Burn St Dist	♣	45	—	79½	40½	23	9.4	15.7
Glenmorangie A	†	922½	-27½	1040	860	-	1.8	22.0
B	†	957½	—	1140	850	-	0.9	45.7
Grand Met	♣♠	593	+8	636	425½	25,243	3.2	19.0
Guinness	♣♠	591½	+5½	608½	454	29,027	3.3	16.3
Highland	♣	301½xd	—	380	280	20	3.7	13.9
5¼pc Cnv Bds		92¼	+¼	99½	85½	-	6.4	-
Kirin Y	§	483	+1¼	654¼	434½	-	1.3	-
Matthew Clark	♣♠	185	+1½	336	161½	486	13.9	5.8
Merrydown	♣	64½	+2	109½	49½	8	6.0	-
Seagram C$		£19⅛	+⅜	£25⅛	£18⅝	-	1.5	-

BANKS, RETAIL

[illegible]

BREWERIES, PUBS & REST

[illegible]

BUILDING & CONSTRUCTION

[illegible]

BUILDING MATS. & MERCHANTS

[illegible]

CHEMICALS

[illegible]

CHEMICALS - Cont.

[illegible]

DISTRIBUTORS

[illegible]

DIVERSIFIED INDUSTRIALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONIC & ELECTRICAL EQPT

[illegible]

ENGINEERING

[illegible]

ENGINEERING - Cont.

[illegible]

ENGINEERING, VEHICLES

[illegible]

EXTRACTIVE INDUSTRIES

[illegible]

EXTRACTIVE INDUSTRIES - Cont.

[illegible]

FOOD PRODUCERS

[illegible]

GAS DISTRIBUTION

[illegible]

HEALTH CARE

[illegible]

HEALTH CARE - Cont.

[illegible]

HOUSEHOLD GOODS

[illegible]

INSURANCE

[illegible]

INVESTMENT TRUSTS

[illegible]

INVESTMENT TRUSTS - Cont.

[illegible]

INV TRUSTS SPLIT CAPITAL

[illegible]

LONDON SHARE SERVICE

OTHER INVESTMENT TRUSTS

[illegible]

INVESTMENT COMPANIES

[illegible]

LEISURE & HOTELS

[illegible]

LIFE ASSURANCE

[illegible]

MEDIA

[illegible]

MEDIA - Cont.

[illegible]

OIL EXPLORATION & PRODUCTION

[illegible]

OIL, INTEGRATED

[illegible]

OTHER FINANCIAL

[illegible]

PAPER, PACKAGING & PRINTING

[illegible]

PHARMACEUTICALS

[illegible]

PROPERTY

[illegible]

PROPERTY - Cont.

[illegible]

RETAILERS, GENERAL - Cont.

[illegible]

SUPPORT SERVICES

[illegible]

PROPERTY - Cont.

[illegible]

RETAILERS, FOOD

[illegible]

RETAILERS, GENERAL

[illegible]

SUPPORT SERVICES - Cont.

[illegible]

TELECOMMUNICATIONS

[illegible]

TEXTILES & APPAREL

[illegible]

TOBACCO

[illegible]

TRANSPORT

[illegible]

WATER

[illegible]

AIM

[illegible]

AIM - Cont.

[illegible]

AMERICANS

[illegible]

CANADIANS

[illegible]

SOUTH AFRICANS

	Notes	Price	+ or -	52 week high	low	Volume '000s	Yld Gr's	P/E
Anglo Am Ind R		£[illegible]	...	*£27[illegible]	£21[illegible]	–	3.0	Φ
Barlow	♣	[illegible]	[illegible]	[illegible]	[illegible]	–	3.0	Φ
Gold Flds Prop R		122½	[illegible]	187	119	–	6.7	10.0
SA Brews	†	£14[illegible]	[illegible]	£23[illegible]	£13[illegible]	–	2.5	–
Standard Bank		£[illegible]	[illegible]	[illegible]	£21[illegible]	–	2.1	–
Tiger Oats		[illegible]	[illegible]	1109	790	–	3.4	Φ
Tongaat-Hulett		753½[illegible]	[illegible]	788	719½	–	2.4	Φ

TRADED INDEX SECURITIES

	Notes	Price	+ or -	52 week high	low	Volume '000s	Yld Gr's	P/E
FTSE 100 TRAINS		£[illegible]xd	...	£[illegible]	£472	–	–	–

GUIDE TO LONDON SHARE SERVICE

Prices and trading volumes for the London Share Service are delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. For FTSE 100 Index constituents and reserves marked † in the Trading Volume table on the LSE page, last trade prices at or prior to 4:30pm market close are shown, as these shares are now traded on the Stock Exchange Electronic Trading System ("SETS"). Highs and lows are based on intra-day mid-prices/last trades over a rolling 52 week period.

Trading Volumes are end of day accumulated totals. Dashes indicate that either no trade has taken place during the day or the data is not available for those particular securities. Volumes shown for foreign securities are based on London trading.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Earnings used in calculations are based on IIMR 'Headline Earnings' formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- * Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- Φ Figures or report awaited
- ♥ Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
- # Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
e Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
z Dividend yield includes a special payment
F Yield based on prospectus or other official estimates for 1996-97.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1997.
K Yield based on prospectus or other official estimates for 1998
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1997-98.
P Dividend is paid in whole or part as a FID (Foreign Income Dividend)
R Forecast annualised yield, p/e based on prospectus or other official estimates.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations:
xd ex dividend;
xc ex scrip issue;
xr ex rights;
xa ex all;
xi ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1425 a year for each security shown, subject to the Editor's discretion

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The share prices printed on these pages are also available on the internet at http://www.FT.com.

LONDON STOCK EXCHANGE

FTSE 100 drives through the 5,200 barrier

MARKET REPORT

By Steve Thompson, UK Stock Market Editor

Further reassurance from the Asian markets, plus a confidence-boosting leap by Wall Street, injected renewed enthusiasm into London's equity market.

The FTSE 100 index made rapid progress for the third straight session, hurdling the 5,200 level and eventually settling a net 81.6 ahead at 5,203.4. The Dow Jones Industrial Average also accelerated back past the 8,000 mark.

Footsie has rallied 167.8, or 3.3 per cent, since Thursday night as the market has recovered from last week's bout of Asian-induced weakness, when the South Korean currency was devaluing by a daily 10 per cent. Once again it was the banks, specifically Abbey National and Alliance & Leicester, that featured prominently.

The index is now only around 164 points from its all-time intraday high, reached on October 2. Some optimists still maintain that the index may yet take a dart at the record before the year is out. The first expiry of the Footsie future under the new trading system, scheduled for Friday, may well play a big part in whether the index approaches its previous peak.

Second-liners were also being chased higher, but at nothing like the pace of the leaders. The FTSE 250 made good early progress before being dragged lower after a profits warning issued by Danka, the office equipment supplier, whose shares plunged by more than a half. The 250 index finished 6.0 down at 4,757.0. The SmallCap eased 1.1 to 2,298.8.

As well as the international factors lifting sentiment, there was more positive news on the domestic takeover front, albeit in the smaller stocks.

Capping a session of widespread gains was news that Bass, the big brewing and leisure group, is returning £850m to its shareholders.

"The market loves the sound of cash being returned to shareholders because it gets pumped straight back into the market," said the head of trading at one big European securities house.

There was only limited help to the big exporters yesterday from the currency markets, where sterling nudged higher against the D-Mark, with the Bank of England trade-weighted index finishing at 103.0, up 0.6.

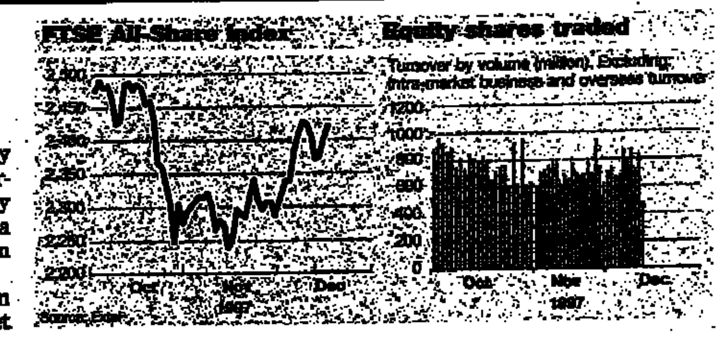
Sterling fell sharply on Monday when the currency reacted to an OECD report suggesting a UK economic slowdown in 1998.

Wall Street's gain on Monday, where the Dow Jones Industrial Average rose by around one per cent, was complemented by fairly solid displays in most Asian markets. London was accordingly strong from the outset, despite a rather soggy performance from gilts.

London got a further boost in the afternoon as the US market came in on a firm note, in the wake of weaker-than-expected inflation data for last month.

The outcome of the Federal Reserve meeting was not known during London market hours, but most traders said a rise in US interest rates would come as a substantial shock.

Turnover picked up substantially, reaching 890.9m shares by the 6pm count.



Indices and ratios

FTSE 100	5203.4	+81.6	FT 30	3313.00	+40.8
FTSE 250	4757.0	-6.0	FTSE Non-Fins p/e	20.17	19.94
FTSE 350	2493.1	+31.1	FTSE100 Fut Dec	5218.0	+86.0
FTSE All-Share	2431.52	+28.41	10 yr Gilt yield	6.36	6.34
FTSE All-Share yield	3.14	3.24	Long gilt/equity yld ratio	2.04	1.96

Best performing sectors		Worst performing sectors	
1 Pharmaceuticals	+2.4	1 Support Services	-1.6
2 Tobacco	+2.4	2 Textiles & Apparel	-0.9
3 Insurance	+2.2	3 Distributors	-0.5
4 Banks: Retail	+2.2	4 Electronic & Elect Equip	-0.5
5 Life Assurance	+2.2	5 Extractive Inds	-0.4

Lehman promotes Zeneca

By Peter John, Martin Brice and Joel Kibazo

Leading pharmaceuticals stocks were driven forward by a significant change of heart from one US broker.

Lehman Brothers has spent the past few months scrutinising every aspect of the top 28 drugs companies in Europe. The broker has produced detailed valuations of thousands of drugs in order to build a picture of industry potential. It has concluded that despite concerns about patent expiry and increased marketing expenditure, most big drug stocks are undervalued.

Lehman has raised its recommendation on Zeneca to an outright "buy" and placed a one-year target of £25.50 a share assuming a flat market. The broker has also gone from "neutral" to "outperform" on Glaxo Wellcome and on SmithKline Beecham. It set price targets of £15.50 for Glaxo and 700p for SmithKline.

As the broker geared up for a long, Europe-wide series of presentations and institutional visits, shares responded by rising sharply. Zeneca lifted 45 to £20.28, Glaxo 27 to £14.49 and SB up 33 to 651p. SmithKline also benefited from its inclusion in Deutsche Morgan Grenfell's European Equities Focus list. Banking stocks, particularly the former building societies, continued their seemingly unstoppable rise as consolidation talk tightened its hold on the sector.

Abbey National topped the Footsie with a rise of 90, or 8.5 per cent, to £11.47, a record high. Halifax, which was bought at 732½p by institutional investors just before the official flotation in June, rose 24½ to 770p. Alliance & Leicester, which reached 566p on its first day of trading in April, gained 37½ to 831p.

Robert Law, banking analyst at Lehman Brothers, said: "Something is going to happen and the building societies will obviously be involved in any consolidation."

There was no specific gossip yesterday and some analysts were even pointing out that a significant corporate move is unlikely before Christmas because the holidays would upset the bid timetable.

However, there was also buying pressure from institutional investors who have built up big holdings this year and need to justify their investment strategies.

Danka down

The biggest fall in the market was suffered by Danka Business Systems as the stock declined almost 60 per cent or 292½ to 217½p following a profit warning. The company said its global integration was proceeding more slowly than planned, and profits would come in at £53.7m-£55.9m, compared with analysts' estimates of £110m.

The stock was hit in morning trading, and declined almost 100p. But when Wall Street opened for business the shares, of which 76 per cent are held by US investors, fell a further 200p.

On their last day quoted as separate companies, Guinness and Grand Metropolitan improved 5½ to 591½p and 8 to 593p respectively. Turnover in the former was 28m and in the latter 25m. The newly merged group, to be called Diageo, is listed on the London stock market from today.

In the rest of the sector, shares in hotels and drinks group Bass hardened 4 to 899p as talk that the group is on the hunt for a strategic acquisition did the rounds.

The group yesterday announced its second disposal in two days and flagged plans to return around £850m to shareholders, a figure which accounts for about 11 per cent of the group's market capitalisation. One market specialist said: "With a war chest of about £2bn I would be surprised if Bass isn't looking to make an acquisition soon."

Pub and hotels company Greenalls Group, which in September issued a warning due to problems in its managed pubs and restaurants division, was also in demand after reporting improved full-year figures. The shares gained 14 to 422½p.

London Clubs was supported by a weighty note from NatWest Securities. The shares put on 6 to 318½p. The broker has published a 33-page strategic assessment on the company entitled "Fancy a Club?"

NatWest urges investors to "add" to holdings saying: "The market is not currently awarding sufficient credit to the potential value of LCI's future investments and to the growth opportunities available in international gaming. Recent share price weakness surrounding the impact of the Far East situation has been misplaced. Investors now have an excellent opportunity to accumulate holdings."

Smith & Nephew slipped 6¾ to 178p as the company said its overall trading performance was in line with previous trends but currency movements might affect earnings in 1998.

Lasmo shot higher in late trading. The company announced it had appointed Paul Murray to the board as corporate development director. He is considered to have been heavily instrumental in Lasmo's defence against the hostile bid from Enterprise a few years ago. The shares closed up 20 at 285p.

Hanson ran into more profit-taking following its third-quarter results, and shed 2½ to 288p. Kevin Cammack at Merrill Lynch has told clients that fair value for the stock is 348p. He has also said the remodelled Hanson has produced "entirely satisfactory results". However, the company "has received scant praise for this and no recognition in share price rating terms".

Although the pound regained some ground lost on Monday, hopes of future weakness in sterling led to rises in manufacturing exporters. Siebe led the advance rising 40 to £12.80, sentiment helped by the announcement of a disposal.

GKN rose 39 to £12.83, the shares finding support following recent declines prompted by fears of lost orders.

Nikko Securities has told clients the falls have made the shares more attractive, but "the present rating does not leave much headroom for outperformance".

Smiths Industries gained 24½ to 867p, helped by Nikko's comment that they stood at a market rating "cheap for a company with an excellent track record".

British Steel, the most geared play to sterling in the FTSE 100, rose 1½ to 138p in brisk volume of 11m.

National Express fell 2½ to 604p after it was told to sell its Scottish Citylink Coaches subsidiary as a condition of acquiring ScotRail Railways. The shares were marked down 8p in the morning but were lifted off their lows after finding support. Volumes were small, however.

FT 30 INDEX

	Dec 16	Dec 15	Dec 12	Dec 11	Dec 10	Yr ago	*High	*Low
FT 30	3313.0	3272.2	3236.6	3228.9	3267.4	2740.6	3430.5	2668.8
Ord. div. yield	3.41	3.46	3.50	3.51	3.46	4.2	4.22	3.29
P/E ratio net	21.57	21.23	20.96	20.95	21.26	16.94	22.33	15.80
P/E ratio nil	21.28	20.94	20.70	20.66	20.97	16.78	22.02	15.71

FT 30 since compilation: high 3430.5 18/10/97; low 49.4 26/06/40. Base Date: 1/7/35.

FT 30 hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
3272.2	3284.2	3289.8	3287.4	3293.6	3294.2	3300.1	3298.3	3311.8	3315.8	3269.4

	Dec 16	Dec 15	Dec 12	Dec 11	Dec 10	Yr ago
SEAQ bargains	53,234	49,128	43,350	46,511	48,473	31,801
Equity turnover (£m)†	-	NA	1603.1	2931.5	2673.0	1157.6
Equity bargains†	-	NA	32,809	40,058	40,127	16,775
Shares traded (mil)†	-	NA	481.7	823.4	732.5	364.7

†Excluding intra-market and overseas turnover but including Crest turnover.

 *For 1997.

London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	789	Total Highs	101	Total contracts	33,141
Total Falls	733	Total Lows	118	Calls	22,485
Same	1,522			Puts	10,656

Dec 16 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

FTSE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	5157.0	5218.0	+86.0	5230.0	5156.0	16595	33627
Mar	5206.0	5269.0	+88.5	5280.0	5205.0	13563	33607

FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec		4773.0	+3.0			0	4818
Mar	4848.0	4848.0	+3.0	4848.0	4848.0	3	5178

FTSE 100 INDEX OPTION (LIFFE) (5208) £10 per full index point

[illegible]	[illegible]

EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

[illegible]	[illegible]

Calls 6,605 Puts 3,517 * Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1997 High	1997 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
[illegible]											

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

FTSE GOLD MINES INDEX

	Dec 16	% chg on day	Dec 15	Year ago	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (33)	954.04	+1.4	940.70	1828.58	2.90	-	1907.48	933.02
■ Regional Indices								
Africa (15)	960.83	+1.1	950.62	2133.63	7.26	17.13	2333.35	921.75
Australasia (6)	838.53	-1.5	850.55	2070.27	3.88	12.19	2277.80	838.53
North America (12)	968.57	+1.3	947.46	1714.83	1.33	26.51	1788.95	934.94

 Figures in brackets show number of companies. Basis US Dollars. Base Values: 1000.00 31/12/92. † Partial. Latest prices were unavailable for this edition.

FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	Dec 16	Day's chge%	Dec 15	Dec 12	Year ago	Gross yld%	Net yld%	Cover	P/E ratio	Xd adj. ytd	Total Return
FTSE 100	5203.4	+1.6	[illegible]								
FTSE 250	4757.0	-0.1	[illegible]								
FTSE 250 ex IT	[illegible]										
FTSE 350	2493.1	+1.3	[illegible]								
FTSE 350 ex IT	[illegible]										
FTSE 350 Higher Yield	[illegible]										
FTSE 350 Lower Yield	[illegible]										
FTSE SmallCap	2298.81		[illegible]								
FTSE SmallCap ex IT	[illegible]										
FTSE All-Share	2431.52	+1.2	[illegible]								
FTSE All-Share ex IT	[illegible]										

■ FTSE Actuaries Industry Sectors

	Dec 16	Day's chge%	Dec 15	Dec 12	Year ago	Gross yld%	Net yld%	Cover	P/E ratio	Xd adj. ytd	Total Return
10 MINERAL EXTRACTION(22)	[illegible]										
12 Extractive Industries(5)	[illegible]										
15 Oil, Integrated(3)	[illegible]										
16 Oil Exploration & Prod(12)	[illegible]										
20 GEN INDUSTRIALS(254)	[illegible]										
21 Building & Construction(38)	[illegible]										
22 Building Matls & Merchs(29)	[illegible]										
23 Chemicals(28)	[illegible]										
24 Diversified Industrials(13)	[illegible]										
25 Electronic & Elect Equip(35)	[illegible]										
26 Engineering(66)	[illegible]										
27 Engineering, Vehicles(13)	[illegible]										
28 Paper, Pckg & Printing(27)	[illegible]										
29 Textiles & Apparel(14)	[illegible]										
30 CONSUMER GOODS(88)	[illegible]										
32 Alcoholic Beverages(7)	[illegible]										
33 Food Producers(23)	[illegible]										
34 Household Goods(17)	[illegible]										
36 Health Care(14)	[illegible]										
37 Pharmaceuticals(19)	[illegible]										
38 Tobacco(3)	[illegible]										
40 SERVICES(273)	[illegible]										
41 Distributors(28)	[illegible]										
42 Leisure & Hotels(30)	[illegible]										
43 Media(42)	[illegible]										
44 Retailers, Food(15)	[illegible]										
45 Retailers, General(53)	[illegible]										
47 Breweries, Pubs & Rest.(22)	[illegible]										
48 Support Services(58)	[illegible]										
49 Transport(22)	[illegible]										
60 UTILITIES(32)	[illegible]										
62 Electricity(9)	[illegible]										
64 Gas Distribution(2)	[illegible]										
66 Telecommunications(8)	[illegible]										
68 Water(12)	[illegible]										
69 NON-FINANCIALS(668)	[illegible]										
70 FINANCIALS(104)	[illegible]										
71 Banks, Retail(11)	[illegible]										
73 Insurance(17)	[illegible]										
74 Life Assurance(6)	[illegible]										
77 Other Financial(26)	[illegible]										
79 Property(42)	[illegible]										
80 INVESTMENT TRUSTS(125)	[illegible]										
89 FTSE All-Share(898)	2431.52	+1.2	[illegible]								
105 FTSE All-Share ex IT(767)	[illegible]										
FTSE Fledgling	[illegible]										
FTSE Fledgling ex IT	[illegible]										
FTSE AIM	[illegible]										

■ Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FTSE 100	[illegible]										
FTSE 250	[illegible]										
FTSE 350	[illegible]										
FTSE SmallCap	[illegible]										
FTSE All-Share	[illegible]										

Time of FTSE 100 Day's high: 4.20 PM Day's low: 8.23 AM. FTSE 100 1997 High: 5330.8 (03/10/97) Low: 4056.6 (10/01/97). Time of FTSE All-Share Day's high: 4.20 PM Day's low: 8.23 AM. FTSE All-Share 1997 High: 2492.41 (03/10/97) Low: 1989.75 (20/01/97).

Further information is available on http://www.ftse.com. "FT-SE" and "Footsie" are trade marks of the London Stock Exchange and The Financial Times and are used by FTSE International under licence. † Sector P/E ratios greater than 80 and net covers greater than 10 are not shown. ‡ Values are negative. Invest. Ionics (FTSE SmallCap) Switch & Saatchi (FTSE 250) & (43) (All effective 15.12.97); Deletion: Ionica (FTSE 250) (Effective 15.12.97); Monster Swan (FTSE SmallCap) & (26).

FTSE INTERNATIONAL

TRADING VOLUME

■ Major Stocks Yesterday

	Vol. 000s	Closing price	Day's change
[illegible]			

Based on trading volume for a selection of Alpha securities dealt through the SEAQ system yesterday until 4.30pm. † Indicates a FTSE 100 index constituent stock. All trades are rounded. Source: ... Retail, part of FT Information.

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Dec 16 / Sch)

BELGIUM/LUXEMBOURG (Dec 16 / Frs.)

CZECH REP (Dec 16 / Korona)

DENMARK (Dec 16 / Kr)

FINLAND (Dec 16 / Mka)

FRANCE (Dec 16 / Frs.)

GERMANY (Dec 16 / Dm.)

GREECE (Dec 16 / Drachmae)

ITALY (Dec 16 / Lira)

NETHERLANDS (Dec 16 / Fls.)

NORWAY (Dec 16 / Kroner)

POLAND (Dec 16 / Zloty)

PORTUGAL (Dec 16 / Escudo)

SPAIN (Dec 16 / Pta.)

SWEDEN (Dec 16 / Kronor)

SWITZERLAND (Dec 16 / Frs.)

TURKEY (Dec 16 / Tk Lira)

PACIFIC

JAPAN (Dec 16 / Yen)

AUSTRALIA (Dec 16 / Aus$)

NASDAQ (Dec 16 / US$)

1:30 pm

CANADA

TORONTO (Dec 16 / Can $)

1:30 pm

MONTREAL (Dec 16 / Can $)

1:30 pm

MEXICO (Dec 16 / Peso)

12.30pm

AFRICA

SOUTH AFRICA (Dec 15 / Rand)

NORTH AMERICA

UNITED STATES

NEW YORK SE (Dec 16 / US$)

1:30 pm

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the indices.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	MONDAY DECEMBER 15 1997 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	FRIDAY DECEMBER 12 1997 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (74)	191.48	-0.6	173.85	158.31	176.22	194.00	0.3	3.91	192.88	172.91	158.71	177.83	193.45	243.87	190.41	211.11
Austria (23)	186.76	-0.6	169.57	154.40	171.88	171.75	-0.8	1.93	187.95	168.57	154.81	173.28	173.15	213.59	175.14	185.37
Belgium (27)	252.09	-0.2	228.88	208.41	232.00	228.90	0.4	3.01	252.52	226.61	208.00	232.79	227.92	281.11	221.31	221.31
Brazil (30)	223.18	4.8	202.63	184.51	205.39	457.06	4.5	1.94	212.90	191.06	175.37	196.27	437.39	322.44	178.96	180.08
Canada (122)	211.16	-0.8	191.72	174.58	194.33	217.08	-0.9	1.81	212.88	191.04	175.35	196.24	219.03	233.66	178.27	183.76
Denmark (32)	435.42	-0.5	395.33	359.98	400.72	399.39	-0.6	1.28	437.47	392.59	360.35	403.29	401.85	437.47	334.25	334.25
Finland (26)	269.93	-1.7	245.08	223.16	248.42	302.70	-1.7	2.08	274.50	246.33	226.10	253.05	307.91	349.43	232.86	234.95
France (84)	230.78	0.3	209.51	190.77	212.38	214.56	0.1	2.49	230.12	206.51	189.56	212.14	214.38	246.29	203.73	204.12
Germany (58)	224.09	-0.3	203.46	185.26	206.23	206.23	-0.4	1.42	224.69	201.64	185.08	207.13	207.13	243.87	183.03	183.73
Hong Kong, China (66)	347.80	-1.2	315.78	287.54	320.08	346.04	-1.3	4.62	352.22	316.08	290.12	324.69	350.45	580.03	314.78	486.44
Indonesia (27)	52.01	-20.4	47.22	43.00	47.87	185.06	-8.2	3.64	65.36	58.66	53.84	60.25	201.49	254.90	52.01	222.65
Ireland (16)	400.02	-0.9	363.19	330.71	368.14	387.90	-0.1	2.55	403.49	362.09	332.35	371.96	388.37	409.57	310.29	310.29
Italy (53)	112.01	1.4	101.70	92.60	103.08	145.15	1.2	1.66	110.50	99.16	91.02	101.87	143.38	115.27	79.11	79.11
Japan (482)	95.88	-0.5	87.06	79.28	88.25	79.28	-0.1	1.00	96.32	86.44	79.34	88.79	79.34	141.12	95.89	133.80
Malaysia (107)	163.34	-3.1	148.30	135.04	150.32	242.19	-2.2	3.00	168.55	151.26	138.84	155.38	247.65	660.85	163.34	581.94
Mexico (27)	1699.25	1.7	1542.81	1404.84	1563.83	15113.81	1.3	1.61	1670.56	1499.17	1376.04	1540.02	14913.38	1901.98	1147.96	1153.32
Netherlands (19)	406.08	0.9	368.69	335.72	373.71	369.71	0.7	2.27	402.56	361.26	331.59	371.10	367.12	440.67	313.78	313.78
New Zealand (14)	79.00	-0.5	71.72	65.31	72.70	70.90	0.3	4.36	79.38	71.24	65.39	73.18	70.69	96.47	75.97	91.25
Norway (38)	323.22	-1.1	293.46	267.22	297.46	319.16	-1.0	1.91	326.92	293.38	269.29	301.38	322.45	374.64	277.33	279.39
Philippines (22)	76.06	-7.2	69.07	62.90	70.01	151.47	-2.3	1.38	81.94	73.53	67.49	75.53	154.96	214.07	76.08	200.54
Singapore (42)	226.53	-5.0	205.68	187.28	208.48	175.96	-3.4	1.82	238.40	213.95	196.37	219.76	182.21	449.01	215.21	409.00
South Africa (43)	259.43	2.7	235.55	214.48	238.76	277.29	2.6	3.10	252.72	226.79	208.17	232.97	270.17	370.12	251.92	306.12
Spain (33)	271.43	1.0	246.44	224.40	249.80	308.18	0.9	2.19	268.79	241.22	221.41	247.79	305.41	277.33	198.92	198.92
Sweden (49)	466.29	0.1	423.35	385.49	429.11	534.74	-0.1	1.94	465.77	417.99	383.66	429.38	535.34	538.94	402.43	404.19
Switzerland (31)	331.22	-0.3	300.73	273.83	304.82	293.56	-0.6	1.14	332.24	298.16	273.67	306.26	295.39	332.47	231.69	237.38
Thailand (39)	19.61	-5.9	17.81	16.21	18.05	36.38	-0.1	7.91	20.85	18.71	17.17	19.22	36.43	108.19	19.61	107.28
United Kingdom (214)	328.15	0.2	297.93	271.29	301.99	297.93	1.4	3.31	327.53	293.93	269.79	301.94	293.93	337.99	264.87	264.87
USA (642)	392.21	1.0	356.10	324.25	360.95	392.21	1.0	1.58	388.40	348.55	319.93	358.05	388.40	401.22	283.43	296.58
Americas (821)	356.05	0.9	323.27	294.36	327.68	300.43	0.9	1.59	352.72	316.54	280.54	325.16	297.66	365.75	268.24	271.00
Europe (705)	283.68	0.2	257.58	234.53	261.07	268.72	0.5	2.40	283.20	254.15	233.28	261.07	265.37	296.25	227.46	227.46
Nordic (147)	407.41	-0.4	369.90	336.82	374.94	408.03	-0.5	1.85	408.91	356.96	336.82	376.96	410.13	464.93	345.30	346.57
Pacific Basin (673)	105.68	-0.8	95.95	87.37	97.26	98.29	-0.3	1.68	106.51	95.58	87.73	98.18	98.55	158.99	105.68	151.45
Euro-Pacific (1578)	179.93	-0.2	163.36	148.75	165.59	155.34	0.2	2.15	180.21	161.72	148.44	166.13	154.98	209.12	173.55	183.02
North America (764)	380.69	0.9	345.64	314.73	350.35	380.41	0.9	1.59	377.30	338.59	310.78	347.82	377.04	389.57	286.81	289.78
Europe Ex. UK (491)	253.64	0.2	230.29	209.70	233.43	243.45	0.0	1.87	253.24	227.26	208.60	233.45	243.41	267.07	202.63	202.63
Pacific Ex. Japan (391)	194.51	-1.9	176.60	160.81	179.01	195.56	-1.0	4.00	198.22	177.88	163.27	182.73	197.60	320.65	194.30	303.98
World Ex. US (1800)	183.73	-0.1	166.81	151.89	169.08	161.66	0.3	2.14	183.88	165.01	151.46	169.51	161.44	212.89	176.94	184.86
World Ex. UK (2228)	243.60	0.5	221.17	201.39	224.18	221.47	0.5	1.66	242.40	217.53	199.66	223.46	220.28	262.89	211.16	215.76
World Ex. Japan (1960)	328.30	0.6	298.07	271.42	302.13	321.75	0.7	1.98	326.39	292.90	268.85	300.89	319.44	344.35	264.51	265.21
The World Index (2442)	250.77	0.5	227.68	207.32	230.78	228.38	0.6	1.85	249.62	224.01	205.61	230.11	226.96	268.47	216.61	219.97

Emerging markets: IFC Investable indices

Dollar terms

4 pm close December 16

NEW YORK STOCK EXCHANGE PRICES

1997 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chge Prev. Close
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

- A - - B - - C - - D - - E - - F - - G - - H - - I - - J - - K - - L - - M - - N - - O - - P - Q - - R - - S - - T - - U - - V - - W - - X - Y - Z -

Price data supplied by Extel, part of FT Information

Yearly highs and lows for NYSE reflect the period from Jan 1 1997. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

d-new yearly low. P/E price-earnings ratio. sis-sales. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.

§ Dealings suspended.

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GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	Dec 15	Dec 12	Dec 11	1997 High	1997 Low	Since compilation High	Since compilation Low
Industrials	7922.59	7838.30	7848.99	8259.31 (6/8)	6391.69 (11/4)	8259.31 (6/8/97)	41.22 (8/7/32)
Home Bonds	105.11	104.88	104.57	105.11 (15/12)	101.09 (14/4)	105.11 (15/12/97)	54.99 (1/10/81)
Transport	3272.40	3238.81	3243.68	3358.27 (15/10)	2222.07 (2/1)	3358.27 (15/10/97)	13.23 (8/7/32)
Utilities	263.85	261.49	258.30	263.86 (15/12)	208.47 (25/4)	263.85 (15/12/97)	16.53 (8/7/32)

DJ Ind. Day's high 7992.72 (7947.21) Low 7807.96 (7758.79) (Theoretical‡)
Day's high 7947.71 (7904.84) Low 7838.30 (7784.35) (Actual‡)

Standard and Poors	Dec 15	Dec 12	Dec 11	1997 High	1997 Low	Since compilation High	Since compilation Low
Composite‡	963.39	953.39	954.94	983.79 (5/12)	737.01 (2/1)	983.79 (5/12/97)	4.40 (1/6/32)
Industrials▼	1112.23	1102.24	1105.51	1146.82 (7/10)	965.42 (11/4)	1146.82 (12/12/97)	3.52 (30/6/32)
Financial▼	119.25	117.37	117.06	120.83 (8/12)	80.75 (2/1)	120.83 (8/12/97)	7.13 (4/9/74)
Others							
NYSE Comp.	504.12	500.00	500.42	514.31 (5/12)	388.47 (11/4)	514.31 (5/12/97)	4.64 (25/4/42)
Amex Comp	665.27	665.90	664.45	721.90 (7/10)	541.20 (28/4)	721.90 (7/10/97)	524.20 (18/7/96)
NASDAQ Cmp	1538.56	1536.58	1558.54	1745.85 (9/10)	1201.00 (2/4)	1745.85 (9/10/97)	54.87 (8/10/74)
Russell 2000	420.75	422.63	424.70	465.21 (13/10)	335.85 (25/4)	465.21 (13/10/97)	123.35 (7/12/93)

RATIOS

	Dec 12	Dec 5	Nov 28	Year ago
Dow Jones Ind. Div. Yield	1.74	1.68	1.74	2.09
	Dec 10	Dec 3	Nov 26	Year ago
S & P Ind. Div. yield	1.48	1.46	1.50	1.85
S & P Ind. P/E ratio	26.09	26.33	25.78	23.04

US DATA

MARKET ACTIVITY

Volume (million)	Dec 15	Dec 12	Dec 11
NYSE	602.132	579.280	628.752
Amex	32.565	28.002	32.264
NASDAQ	801.296	769.272	834.205

NYSE	Dec 15	Dec 12	Dec 11
Issues Traded	3,493	3,426	3,454
Rises	1,592	1,479	745
Falls	1,371	1,430	2,266
Unchanged	470	523	453
New Highs	170	112	84
New Lows	113	112	142

NYSE TRADING ACTIVITY — Volume : 602,080,000

ACTIVE STOCKS

Monday	Stocks traded	Close price	Day's change
Compaq	13,787,100	54¼	−1⅞
Texas Instrm	5,781,900	42½	+1⅛
Teradyne	5,345,800	28¼	+1
Green Tree	5,285,800	30½	−1⅜
Cyp Semi	5,098,800	7¾	−⅝
IBM	5,081,900	100⅞	+¾
Bay Netwk	4,276,500	23¾	−½
Comp Assoc	4,183,700	48	+2
Ph Morris	3,989,000	44⅞	−¾
Motorola	3,878,300	57⅞	+2⅛

BIGGEST MOVERS

Monday	Close price	Day's change	Day's chge %
Ups			
Handy & Hrm	32⅛	+10⅛	+45.8
Pac Scientific	22	+6⅝	+42.5
Lukens	23¾	+6¾	+40.4
Pohang Iron	18¾	+3⅛	+22.5
Downs			
Varco Intl	20⅛	−3⅛	−13.8
EVI	41⅛	−5⅛	−10.9
Pride Intl	22¼	−2⅛	−8.5
Best Buy	35½	−3⅞	−8.3

NASDAQ TRADING ACTIVITY — Volume : 801,296,000

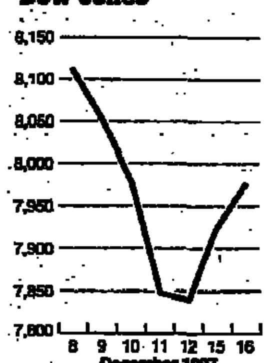
ACTIVE STOCKS

Monday	Stocks traded	Close price	Day's change
Cisco Sys	27,828,700	77¼	+⅞
Intel Corp	27,109,400	72½	+1¾
Appld Mat	15,867,400	28⅛	+1⅞
Dell Comp	15,069,900	83¾	−4⅞
Oracle Cp	14,808,500	23⅛	+⅞
Tel Cm A	11,754,300	28⅛	+1⅛
Microsoft	10,505,300	136¼	−¾
Ect for Im	10,157,100	14⅛	−⅞
Sun Micro	6,801,500	35⅛	−½
3Com Corp	6,593,500	34¼	+⅛

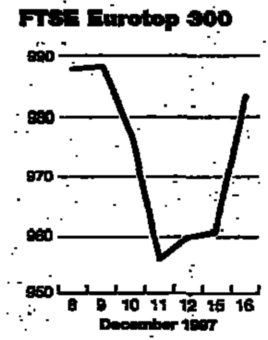
BIGGEST MOVERS

Monday	Close price	Day's change	Day's chge %
Ups			
Glbtech	11¾	+4⅛	+55.7
Seno Corp	32¼	+9¼	+40.2
Fst Com Bc	21½	+4⅛	+23.7
Anchor Gam	51⅞	+8⅛	+19.4
Downs			
Teledata Cm	19½	−5¼	−21.5
Phys Sales	18⅛	−4⅞	−20.4
Avant Cp	16¾	−4⅛	−19.8
Zytec Cp	20¾	−3	−12.6

Dow Jones



FTSE Eurotop 300



JAPAN

	Dec 16	Dec 15	Dec 12	1997 High	1997 Low	Since compilation High	Since compilation Low
Nikkei 225	15985.21	15909.39	15904.30	20681.07	15082.52	38915.9	85.25

TOKYO TRADING ACTIVITY — Volume : 419,000,000

ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Day's change
Yamaichi Sec	14,089,000	1	−1
Nippon Steel	11,405,000	168	−6
Sanyo Secs	11,044,000	3	−1
Nomura Secs	8,317,000	1700	+40
Sakura Bank	7,415,000	470	−5
Yasuda T&Bk	7,071,000	183	+1
Fuji Bank	6,315,000	597	+10
Daiwa Secs	5,589,000	458	+28
Ashi	5,308,000	54	+3
Long Cred Bk	4,507,000	241	

BIGGEST MOVERS

Tuesday	Close price	Day's change	Day's chge %
Ups			
Mizuno Bus	408	+88	+27.5
Unidos	1190	+170	+16.7
Nihon Saikan	474	+64	+15.6
Sunpapyo	200	+25	+14.3
Downs			
Hekwa	1370	−600	−30.5
Yurimoto	404	−146	−26.5
Tokyo Rad	200	−64	−24.2
Matsui Elec	175	−45	−20.5

FRANCE

	Dec 16	Dec 15	Dec 12	1997 High	1997 Low	Since compilation High	Since compilation Low
CAC 40	2912.18	2838.27	2830.26	3094.01	2256.97	3094.01	984.81

PARIS TRADING ACTIVITY — Volume : 442,499,110

ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Day's change
Axa–UAP	2,521,550	470.5	+15
Fr Telecom	2,462,608	217.5	+0.7
Rhone–PoulA	1,792,013	265	+2.6
Paribas A	1,299,758	510	+16.8
Michelin B	1,113,351	290	+8.5
Usinor	1,076,994	85	+2.5
Elf Aquit	1,076,873	654	+29
CSF Thom	1,055,704	185	+1
Schneider	1,032,084	317	+8.5
Euro Disney	940,806	7	−0.1

BIGGEST MOVERS

Tuesday	Close price	Day's change	Day's chge %
Ups			
Locafrance	30	+17.8	+145.9
Londa	75.9	+17.5	+30
Stsd	945	+104	+12.4
Orleans Ch	1240	+126	+11.3
Downs			
Fenx Therm	1136	−478	−29.6
Crosti–Back	703	−99	−12.3
Sola (LA)	211.3	−29.6	−12.3
Colligen	721	−78	−9.8

GERMANY

	Dec 16	Dec 15	Dec 12	1997 High	1997 Low	Since compilation High	Since compilation Low
DAX	4083.97	4060.04	4082.60	4438.93	2848.77	4438.93	931.18

FRANKFURT TRADING ACTIVITY — Volume : 11,159,461

ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Day's change
Commerzbk	871,966	69.7	+0.95
Siemens	765,407	100.3	−2.1
Bayer	764,679	82.15	+0.4
BASF	548,329	61.75	−0.15
Dresdner Bk	424,315	82.1	+0.7
Deutsche Bk	414,028	123.75	+0.45
Lufthansa	402,499	33.75	+1.15
Deutsche Tel	351,557	38.6	+0.3
Veba	336,145	114.5	+0.8
Hoechst	297,909	82.9	−1.15

BIGGEST MOVERS

Tuesday	Close price	Day's change	Day's chge %
Ups			
Felten & Glm	139	+20	+16.8
Strabag	119	+9	+8.2
Iwka	400	+24	+6.4
Babcock–BSH	95	+5	+5.6
Downs			
Plettac	234	−19.5	−7.7
Villeroy NV Pf	240	−18	−7
KSM NV Pf	395	−20	−4.8
Rutgers	273.5	−12.5	−4.4

UK

	Dec 16	Dec 15	Dec 12	1997 High	1997 Low	Since compilation High	Since compilation Low
FTSE 100	5203.4	5121.6	5045.2	5330.80	4056.60	5330.8	985.9

LONDON TRADING ACTIVITY — Volume : 890,900,000

ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Day's change
Wellman	38,407,580	48	+7½
Guinness	28,418,320	581½	+5½
Courtica	28,104,140	91	−0.5
Grand Met	24,638,810	593	+8
Vodafone	21,845,180	437½	+12½
BTR	18,093,550	181	
SmithKl Bch	17,033,190	651	+23
Shell	12,084,950	458½	+11
Br Steel	11,468,520	138	+1½
Chime Comm	10,285,200	47½	

BIGGEST MOVERS

Tuesday	Close price	Day's change	Day's chge %
Ups			
Neopeend	52½	+10½	+25
Investment Co	145	+26	+23.9
Wellman	48	+7½	+18.5
Widney	45	+8½	+18.9
Downs			
Danka Bus	217½	−292½	−57.3
Parkwood	47½	−16	−25.2
Unvl Salvage	80	−25	−23.8
Ionica	60	−16	−21

INDEX FUTURES

S&P 500	Open	Latest	Change	High	Low	Est. vol.	Open int.
Dec	968.00	963.50	+8.00	968.50	967.30	71,839	155,922
Mar	966.50	974.20	+7.80	979.90	978.00	161,877	283,045

Nikkei 225	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	15900.0	15970.0	+20.0	16190.0	15810.0	26,945	159,398
Jun	15890.0	16030.0	+200.0	16030.0	15890.0	5	29,498

Open interest figures for previous day.

CAC-40 (200 x Index)	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Dec	2877.0	2918.0	+75.0	2921.0	2873.0	19,090	41,553
Jan	2884.0	2925.0	+75.0	2926.0	2880.0	3,601	9,121
DAX							
Dec	4077.0	4155.0	+121.0	4160.0	4057.0	33,777	56,907
Mar	4116.0	4192.5	+122.5	4197.0	4095.0	16,025	25,626

OMX	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Dec	2355.00	2405.25	+88.25	2407.00	2353.25	8,919	27,325
Jan	2362.25	2413.00	+84.00	2415.25	2362.25	5,875	4,595
SOFFEX							
Dec	6034.8	6091.0	+97.5	6100.0	6020.1	6,960	18,901
Jan	6040.0	6101.0	+106.0	6104.0	6030.0	4,271	8,675

WORLD MARKETS AT A GLANCE

Country	Index	Dec 16	Dec 15	Dec 12	1997 High	1997 Low	Yield	P/E
[illegible]								

NASDAQ NATIONAL MARKET

4 pm close December 16

[illegible]

AMEX PRICES

4 pm close December 16

[illegible]

EASDAQ

[illegible]

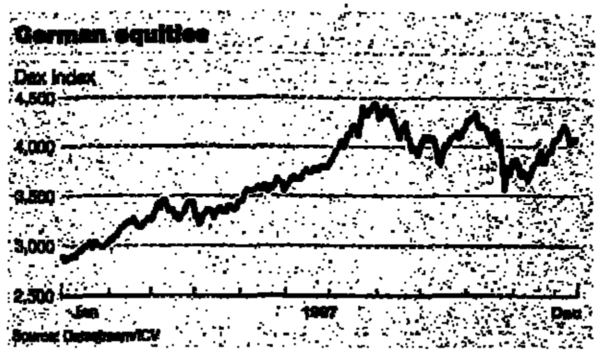
Fed's expected reserve pushes stocks higher

WORLD OVERVIEW

Most stock markets surged ahead yesterday, seemingly confident – with justification as it turned out – that the Federal Reserve's open market committee would not sanction a rise in US interest rates, *writes Philip Coggan.*

The US consumer price numbers, which showed a 0.1 per cent month-on-month rise at both the headline and core level, were weaker than expected. But events in Asia were seen as the main reason why the Fed would leave rates unchanged.

More details of the Japanese financial package emerged yesterday but it did little to reassure the markets; the Nikkei 225 average managed a tiny gain, while the yen made little headway against the dollar.



European markets chose to concentrate on the expected good news from the US, rather than contemplate events in Asia. Despite a drop in the Ifo survey of German business confidence, the Frankfurt market leapt 3 per cent, helped by a stronger dollar and the early surge of Wall Street.

In the wake of the Asian crisis, analysts continue to reassess the prospects for markets. Charles Clough, chief investment strategist at Merrill Lynch, points out: "Even up to a few weeks ago, investors were still willing to pay a significant equity premium for US stocks with global exposure, particularly if it was localised in emerging markets. Today, events in Asia have forced investors to perform minute calculations to prove the same companies have little or no dependency on the very same markets."

Merrill believes that the global economy could be entering a period of slower activity and hence is overweight bonds in its global portfolio; it is underweight the UK and US markets.

"Economic weakness in Asia and a downturn in US consumer spending are likely to hit corporate profits. Even prior to the Asian crisis, US directors were heavy sellers of stocks in their own companies; in recent weeks, three directors have been selling stock for each director who has been buying," Merrill says.

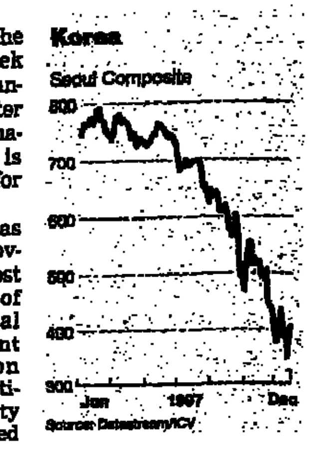
One analyst who remains bullish about Europe is Ian Harnett of NatWest Markets. He says: "Further gains of 10-15 per cent can be expected in 1998 as European markets run with familiar themes to those which supported equities in 1997, notably the drive towards Emu, and the pressure of Asian deflation forcing the pace of European restructuring. However, stronger growth and modestly higher rates mean that currency savings will limit the upside potential."

Mr Harnett recommends an overweight position in Spain, Italy, France, the UK, Sweden and Switzerland, while his underweight countries are Germany, the Netherlands, Norway, Finland and Denmark.

EMERGING MARKET FOCUS

Seoul likely to stay volatile

The strong recovery of the Seoul bourse this week would suggest that financial calm has returned after recent turbulence, but analysts warn the market is likely to remain volatile for several months.



The stock market has responded positively to government measures to boost share prices ahead of tomorrow's presidential election. The government injected Won11,300bn ($7.2bn) into financial institutions to ease a liquidity shortage, while it allowed the won to float from yesterday.

The Seoul general share index climbed by 4.8 per cent to 404.26 yesterday after a 7.2 per cent jump on Monday.

Freeing the won from a daily trading band and allowing it to float is considered particularly important since it increases the chances of the currency quickly finding its natural level against the dollar.

That would assure overseas investors who have stayed out of the market – in spite of the near doubling of the foreign shareholding limit to 55 per cent – because they are worried about foreign exchange losses after the won lost half of its value this year.

The won's stability will depend on Korea's commitment to implementing the tough terms of the International Monetary Fund's $57bn rescue. If the IMF is satisfied with Korea's progress, the inflow of dollars will help restore confidence in the won.

The pace and depth of the reforms proposed by the IMF will largely depend on Korea's next president. The election of Kim Dae-jung, the veteran centre-left opposition leader and front-runner, could spook foreign investors. Mr Kim has criticised the IMF deal, but he recently pledged support after opponents claimed his remarks were fuelling the financial turmoil.

The selection of Lee Hoi-chang, the government candidate, would be viewed favourably by overseas investors because of his consistent support for the IMF agreement.

The outcome of the presidential election might reduce uncertainty about Korea's willingness to pursue reforms, but weak corporate fundamentals could still deter foreign investors.

Most blue-chip Korean companies are likely to report net losses this year and next because the won's sharp fall has increased costs in servicing foreign debt. Profits will also be harmed by price deflation for the nation's main export products, including semiconductors, cars, steel, and petrochemicals, due to excess production capacity.

High interest rates of 18-20 per cent would make the bond market, which was recently opened wider to foreign investors, an attractive alternative to the stock market.

Foreign interest in the stock market is likely to focus on possible mergers and acquisitions as highly-leveraged conglomerates restructure to raise capital by selling off subsidiaries. The government recently relaxed rules on foreign takeovers of Korean companies, although it has barred hostile bids.

John Burton

Dow climbs above 8,000 on weak data

AMERICAS

A broadly-based rally took hold on Wall Street by midday as technology shares improved and the Dow Jones Industrial Average climbed back above the 8,000-point level, *writes John Labate in New York.*

Further indications that inflation remains subdued added to the upbeat mood. The consumer price index rose a mere 0.1 per cent in November, better than most analysts had expected.

The low inflation reading came as the Federal Reserve open market committee met to determine interest rate policy. Few analysts expect a rise in interest rates soon.

By early afternoon the blue-chip Dow was 78.58 higher at 8,001.17, while the broader Standard & Poor's 500 index climbed 7.94 to 971.33.

"A lot of what is happening this week is relative to what happened last week, when the market overreacted. We had a 310-point loss on the Dow, and people thought that Asia would fall apart," said Larry Wachtel, market analyst at Prudential Securities.

Calm in Asian markets overnight eased concerns about the recently battered technology sector. The most impressive gains of the morning belonged to the Nasdaq composite index which rose 20.87 or 1.4 per cent to 1,557.43.

The high-tech rebound spread to the Dow as well, as IBM and Hewlett-Packard were among the best performers in the blue-chip sector. IBM gained $3¾ to 104\frac{1}{16}$ while HP rose 1\frac{15}{16}$ to $63½.

Leading financial service companies were also solid risers, with American Express rising 2\frac{7}{16}$ to $91. But banking stocks were more mixed.

Shares in Chase Manhattan slid $¼ to $112 after the company announced a management shake-up.

Dell Computer rebounded from Monday's losses, gaining 3\frac{1}{16}$ to $86⅞ while rival Compaq Computer rose 2\frac{15}{16}$ to $57¼.

Micron Technology rose 1\frac{1}{16}$ to $23½ in spite of a downgrading in the stock's rating by Merrill Lynch after the company reported weaker-than-expected earnings.

A profits warning sent shares of paper company Georgia Pacific down $$\frac{3}{16}$ to 84\frac{15}{16}$. RJR Nabisco rose $⅝ to $36⅛ after the company announced a restructuring plan.

TORONTO rallied, with the strong opening on Wall Street helping to rebuild the confidence lost along with Monday's heavy falls.

Johannesburg was closed for a public holiday

The heavyweight banks and golds sectors improved noticeably. At noon, the 300 composite index was up 23.00 at 6,607.70.

Royal Bank of Canada jumped C$1.15 to C$78.85 in spite of persistent talk of another official rise for interest rates. Toronto-Dominion Bank added 80 cents to C$54.80.

Among golds, Barrick rose 30 cents to C$24.70 and Placer Dome advanced 55 cents to C$16.25.

Alcan Aluminium gained 50 cents to C$38.40.

Buying lifts Mexico City

Leading Latin American centres moved ahead strongly as Wall Street continued to gain ground and a number of local currencies stayed firm in the foreign exchanges.

MEXICO CITY moved higher from the opening bell with brokers reporting solid buying as the peso continued to rally modestly against the dollar. At midsession, the IPC index was up 77.92 or 1.6 per cent at 5,086.06.

Telmex advanced 43 centavos to 21.15 pesos while Femsa gained 1.50 pesos to 64.00 pesos after some initial weakness on worries about an increase for alcoholic duties. Concern about the Asian steel market sent Alfa down 2.60 pesos to 53.90.

SAO PAULO improved 238 or 2.5 per cent to 9,789 on the Bovespa index at midsession. A large part of the upturn stemmed from heavyweight Telebras which gained 2.7 per cent to R$122.70 on hopes for an early move towards privatisation next year.

Dollar sends Frankfurt up 3%

EUROPE

The stronger dollar, which provided impetus to export sensitive stocks, and Wall Street's early gains, sent FRANKFURT up 3 per cent.

The Xetra Dax index jumped 121.23 to 4,150.31 as investors chose to overlook November's IFO business survey, which indicated a weaker than expected German business climate.

Dresdner Bank picked up DM3.35 to DM83.70 as news of the premature retirement of the chief executive, Juergen Sarrazin, was seen as clearing the bank's slate after the recent scandals.

Thyssen recovered from a low of DM378 to close steady at DM386 after news that prosecutors had filed fraud charges against its chief executive, Dieter Vogel.

Elsewhere among the financials, insurers proved the star performers. Allianz rose DM27.70 to DM451.00 while Munich Re jumped DM42 to DM670.

ZURICH resumed its upward trek as optimists' expectations grew for a year end rally, in spite of the market's already heady position. The SMI index rose 105.8 to 6,092.4, just shy of the record close of 6,103.20 seen on December 9.

Share buy-backs were the flavour of the day. Swiss Re rebounded SFr66 to SFr2,607 on a reconsideration of its share buy-back plans.

Novartis advanced SFr46 to SFr2,300 on expectations that it could introduce a share buy-back programme.

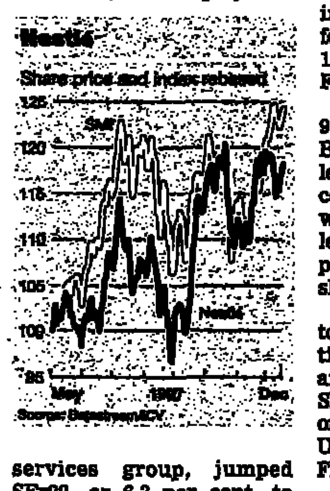
Meanwhile, Surveillance, the testing and inspection group, jumped SFr94 to SFr2,795 as the shareholders approved its planned share buy-back.

Among other blue chips, Nestlé jumped SFr52 to SFr2,117 after Bank Julius Baer raised its share price target to SFr2,400 from SFr2,300.

But Sulzer Medica dropped SFr22 to SFr302 on fears of a possible earnings dilution resulting from its plans to acquire Spine-Tech of the US for around $595m.

Banks benefited from low domestic interest rates and positive analysts' recommendations following the planned UBS-SBC merger. UBS gained SFr41 to SFr2,109, SBC rose SFr7 to SFr452, and CS Group was up SFr1.25 at SFr236.

Adecco, the employment



services group, jumped SFr22, or 6.3 per cent, to SFr371 as Merrill Lynch upgraded the stock.

PARIS rose strongly in the final two hours of trading with steep gains for Peugeot and SGS-Thompson sending the market back above 2,900 in heavy turnover.

Another solid day for the dollar plus an opening bounce for Wall Street lifted sentiment out of its recent slough and by the close volume stood at 23.6m shares. The CAC 40 ended 73.91 higher at 2,912.18.

SGS, hit lately by the computer stock shakeout in the US, rallied strongly, adding FFr27.70, or 8.7 per cent, to FFr344.7. Peugeot found itself at the centre of car sector consolidation talk and advanced FFr35 to FFr685.

L'Oréal bounced FFr102 to FFr2,240 after Morgan Stanley initiated coverage with a "buy" recommendation. Luxury goods rival LVMH looked to be the victim of investor switching on the move, dipping FFr15 to FFr958.

Deal speculation also returned to the banks with Paribas up FFr17 at FFr510, against broker estimates of net asset value ranging from FFr600 to FFr800 a share. CCF put on FFr13.50 to FFr438.50.

Danone, which is included in Deutsche Morgan Grenfell's Pan European Focus of 15 heavyweight stocks, rose FFr39 to FFr1,100.

AMSTERDAM rose 15.95 to 904.73 on the AEX index. Both Royal Dutch and Unilever were more than 3 per cent higher but ABN Amro was the hot stock among leaders, surging Fl 1.90 or 4.8 per cent to Fl 41.70 in 8.6m shares traded.

Royal Dutch gained Fl 3.30 to Fl 111.48 as investors continued to warm to recent analysts presentations by Shell Transport, the UK arm of the Anglo-Dutch oil giant. Unilever added Fl 3.80 at Fl 124.50.

MILAN rose 2.5 per cent, driven mainly by gains in financial stocks. The Mibtel index ended 398 higher at 16,161.

Generali gained L772 to a year's high of L42,550 on unconfirmed rumours that the insurance group would not raise its offer for AGF of France, but would instead seek a deal with rival bidder Allianz, which could see it take control of AGF's German insurance subsidiary Aachener & Münchener (AMB).

Banks also shone as sentiment towards the sector remained strongly positive. Mediobanca rose L494 to L13,760, while Ambroveneto was L102 higher at L6,140 and Credito Italiano advanced L144 to L5,310.

MADRID also saw bank stocks buzzing as investors placed bets on further consolidation in the sector. Banco Popular was the biggest beneficiary, rising more than 7 per cent on takeover hopes.

Popular ended Pta730 higher at Pta10,970 with BBV tipped as the most likely buyer. BBV shares closed Pta100 higher at Pta4,680. Overall, the general index finished the day 9.79 higher at 630.64.

HELSINKI was boosted by gains at technology heavyweight Nokia, and a giant energy merger – the general index finished at 3,198.63, up 32.33.

Nokia advanced FM12.50 to FM374 as investors moved back into the stock after last week's Asia-related losses.

Written and edited by Michael Morgen, Jeffrey Brown, Jonathan Ford and Peter Hall.

FTSE Actuaries Share Indices — European series

December 16

National & Regional Markets	Ecu index	Day's %	change points	Yield gross %	xd adj	Total retn (Ecu)
FTSE Eurotop 300	983.23	+2.33	+22.42	2.28	0.01	990.39
FTSE Eurotop 100	2273.53	+2.33	+51.78	–	–	–
FTSE Eurotop 300 Regions						
300 UK	998.30	+2.47	+24.10	3.14	0.00	1013.99
300 Ex-UK	975.24	+2.25	+21.48	1.78	0.01	977.62
300 Eurobloc	959.50	+2.38	+22.28	2.00	0.00	992.98
300 Ex-Eurobloc	1001.04	+2.30	+22.54	2.47	0.01	1010.91
FTSE Eurotop 300 Economic Groups						
Resources	941.95	+2.57	+23.62	2.90	0.00	955.06
General Industries	900.05	+2.10	+18.55	2.19	0.00	902.21
Consumer Goods	977.00	+2.32	+22.17	1.66	0.04	987.54
Services	973.50	+1.71	+16.37	2.26	0.00	980.86
Utilities	1023.37	+1.71	+17.22	2.93	0.00	1031.69
Financials	1053.78	+2.88	+29.34	2.18	0.00	1059.60

Base value 1000. More information on http://www.ftse.com. 'FTSE' and 'Footsie' are registered trade marks of the London Stock Exchange and The Financial Times. 'Eurotop' is a registered trade mark of the Amsterdam Stock Exchange. FTSE Eurotop indices are compiled by FTSE International. © FTSE International Limited 1997. All rights reserved.

Jakarta rallies as rupiah rises

ASIA PACIFIC

Gains for the rupiah against the dollar, and talk of bargain hunting as foreign investors returned to the market, set the scene for a rebound in JAKARTA.

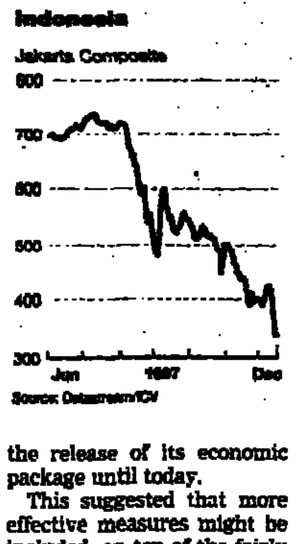
The composite index, which fell 7 per cent on Monday, ended 16.85 or almost 5 per cent higher at 356.39.

Heavyweight stocks led the recovery. Bank Internasional Indonesia ended Rp50 higher at Rp350 on 61.4m shares traded. Telkom, down 18 per cent on Monday, gained Rp200 to Rp2,400 on 42.9m shares traded.

News that President Suharto was gradually resuming work eased concerns about his health and allowed companies linked to his family to rebound from recent lows.

TOKYO remained quiet as traders continued to await details of government plans for economic stimulus and financial reform, *writes Bethan Hutton.*

The Nikkei 225 average surged ahead 200 points at one stage, breaking through the 16,000 level, on news that the ruling Liberal Democratic party had postponed



the release of its economic package until today.

This suggested that more effective measures might be included, on top of the fairly weak list of proposals already widely leaked and discounted by the market.

However, this optimism later subsided, and the Nikkei finished 75.82 higher at 15,985.21, after moving between 15,802.60 and 16,130.37. The broader-based Topix index was up 3.33 at 1,199.42, while the capital weighted Nikkei 300 index edged up 0.64 to 240.36.

In London, the ISE/Nikkei 50 index rose 4.31 to 1,483.56.

Construction companies Taisei and Kajima were still in the spotlight following Monday's warning of a potential downgrading by Moody's, the rating agency.

Kajima fell Y59 to Y328, but Taisei firmed Y3 to Y221. Aoki climbed further on its restructuring, adding Y3 at Y54.

Banks and securities companies generally strengthened in response to details of the government's stabilisation plans for the financial system, which would provide an institution with Y10,000bn to help out struggling banks. Fuji Bank gained Y10 to Y597, Yasuda Trust Y1 to Y163, and Dai-Ichi Kangyo Y6 to Y955. The collapsed Yamaichi Securities was the day's most heavily traded share, halving to Y1.

Volume continued to be relatively thin, at an estimated 410m, compared with Monday's 414.5m. In spite of gains in the indices, losers outnumbered gainers among individual stocks by 574 to 558, with 153 unchanged.

In Osaka the OSE index gained 77.96 to 15,718.09 in volume of 18.1m shares.

SINGAPORE continued to retreat as further losses for the local dollar sparked a steady flow of sell orders. Banks stayed under pressure and at the close the Straits Times index was off 38.89 at 1,561.75 for a two-day decline of almost 4.5 per cent.

Among banks, the foreign tranche of UOB and OCBC both lost 60 cents to S$9.20 and S$9.10 respectively. Conglomerate Fraser & Neave tumbled S$1.10 to S$6.75.

HONG KONG remained under pressure as domestic and foreign investors liquidated positions ahead of the year-end. The Hang Seng index finished 88.77 lower at 10,346.38 after hitting a low of 10,305.91.

The slide may have been exaggerated by the thin level of business, which saw turnover of just HK$7.2bn.

KUALA LUMPUR lost 2.5 per cent with finance stocks among the weaker spots during the uninspired session. The composite index ended down 14.16 at its low for the day of 544.31 while the KLSE financial index closed down 4.7 per cent. Analysts said that a slowing economy and lending restrictions were expected to squeeze profits in the finance sector.